

MERCER COUNTY
SPECIAL
SERVICES
SCHOOL DISTRICT

County of Mercer
Board of Education
New Jersey

*Comprehensive Annual Financial Report
For the Year Ended
June 30, 2012*

Mercer County Special Services School District

**Mercer County Special Services School District
Hamilton
Mercer County, New Jersey**

Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

Prepared by
Business Office

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Introductory Section



MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

2nd Floor Administrative Offices

1020 Old Trenton Road

Hamilton, New Jersey 08690

Phone: 609-631-2100 Fax: 609- 570-1154

Kimberly Schneider, Ed.D.
Superintendent

Nancy R. Swirsky
School Business Administrator/Board Secretary

November 20, 2012

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
County of Mercer
Hamilton, New Jersey 08690

Dear Board Members and Constituents:

The comprehensive annual financial report of the Mercer County Special Services School District (“District”) for the fiscal year ended June 30, 2012, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the administration of the Board of Education. To the best of our knowledge and belief, the data presented in this report is accurate in all material aspects and is reported in a manner designed to present fairly the financial position and results of operations of the governmental-type activities, the business-type activities, and each major fund of the District. All disclosures necessary to enable the reader to gain an understanding of the District’s financial activities have been included.

The comprehensive annual financial report is presented in four (4) sections: Introductory, Financial, Statistical and Single Audit. The Introductory section includes this transmittal letter (designed to complement Management’s Discussion and Analysis and should be read in conjunction with it), the District’s organizational chart and a list of principal officials. The Financial section includes Management’s Discussion and Analysis (immediately following the independent auditors’ report) and the basic financial statements, footnotes and schedules, as well as the auditor’s report thereon. The Statistical section includes selected financial and demographic information, generally presented on a multi-year basis and is unaudited. The District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, and the State OMB Circular Letter 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments. Information related to this single audit, including the auditor’s report on the internal controls over compliance and compliance with applicable laws and regulations and any related findings and recommendations are included in the Single Audit section of this report.

1) REPORTING ENTITY AND ITS SERVICES:

Mercer County Special Services School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board. All major funds of the District and the government-wide financial statements are included in this report. The Mercer County Special Services Board of Education and its schools constitute the District's reporting entity.

The District provides a full range of special needs educational services appropriate to grade levels pre-K through 12. The District completed the 2012 fiscal year with an average daily enrollment of 688.7 students, which is 10 students less than the previous year's enrollment. The following details the changes in the student enrollment of the District over the last ten (10) years.

Average Daily Enrollment

<u>Fiscal</u> <u>Year Ending</u>	<u>Student</u> <u>Enrollment</u>	<u>Percent</u> <u>Change</u>
2011-2012	688.7	(1.57)%
2010-2011	699.7	(6.41)%
2009-2010	747.6	(4.63)%
2008-2009	783.9	2.27%
2007-2008	766.5	(3.91)%
2006-2007	797.7	2.69%
2005-2006	776.8	(6.06)%
2004-2005	826.9	(10.81)%
2003-2004	927.1	(1.23)%
2002-2003	938.6	0.85%

2) MAJOR INITIATIVES:

The enrollment has declined seven (7) years within the last ten (10) years after more than twenty years of growth. The District is experiencing this decrease in enrollment due to the Department of Education requirements for controlling out of District placements from sending districts, the on-going economic situation, and the 2% cap on the sending district's tax levy increases.

The District continues to implement an innovative program called Cognitive Severe to better meet the changing needs of the sending schools. A major initiative for the entire District is the implementation of a new student information system to better track students Individualized Education Plans (IEP's) and performance.

3) INTERNAL CONTROLS:

The administration of the District is responsible for establishing and maintaining an internal control environment designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by the administration.

As a recipient of federal awards and state financial assistance, the District is also responsible for ensuring that an adequate internal control environment is in place to ensure compliance with applicable laws and regulations. This internal control environment is also subject to periodic evaluation by the District management.

As part of the District's single audit described earlier, tests are made to determine the adequacy of the internal controls over compliance, including that portion related to federal awards and state financial assistance programs, as well as to determine that the District has complied with applicable laws and regulations.

4) BUDGETARY CONTROLS:

In addition to internal controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Chosen Freeholders of the County of Mercer. Annual appropriated budgets are adopted for the General Fund and the Special Revenue Fund. Project-length budgets are approved for the capital improvements accounted for in the Capital Projects Fund. The final budget amount as amended for the fiscal year is reflected in the Financial section. An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either cancelled or are included as re-appropriations of fund balance in the subsequent year. Those amounts to be re-appropriated are reported as a portion of fund balance at June 30, 2012.

5) ACCOUNTING SYSTEM AND REPORTS:

The District's accounting records reflect generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board ("GASB"). The accounting system of the District is organized on the basis of funds. These funds are explained in Notes to the Basic Financial Statements, Note 1.

6) FINANCIAL INFORMATION AT FISCAL YEAR-END:

As demonstrated by the various statements and schedules included in the Financial section of this report, the District continues to meet its responsibility for sound financial management. Financial summaries and detail should be reviewed in the Management's Discussion and Analysis for the fiscal year ended June 30, 2012.

7) CASH MANAGEMENT:

The investment policy of the District is guided in large part by State statute as detailed in the Notes to the Basic Financial Statements, Note 3. The District has adopted a Cash Management Plan, which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

8) RISK MANAGEMENT:

The Board carries various forms of insurance including, but not limited to, property, inland marine and automobile physical damage; boiler and machinery; crime; general and automobile liability; workers' compensation; educator's legal liability; pollution legal liability and surety bonds.

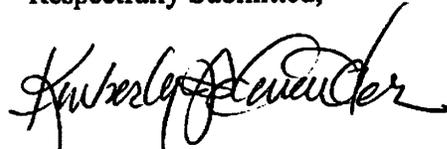
9) OTHER INFORMATION:

Independent Audit – State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Wiss & Company LLP was selected by the Board. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments of 1996 and the related OMB Circular A-133 and State OMB Circular Letter OMB 04-04. The auditors' report on the basic financial statements and specific required supplementary information and the combining and individual fund statements and schedules are included in the Financial section of this report. The auditors' report related specifically to the single audit is included in the single audit section of this report.

10) ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Mercer County Special Services School District Board of Education for their concern in providing fiscal accountability to the citizens and taxpayers of the County and District and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our Business Office staff.

Respectfully Submitted,

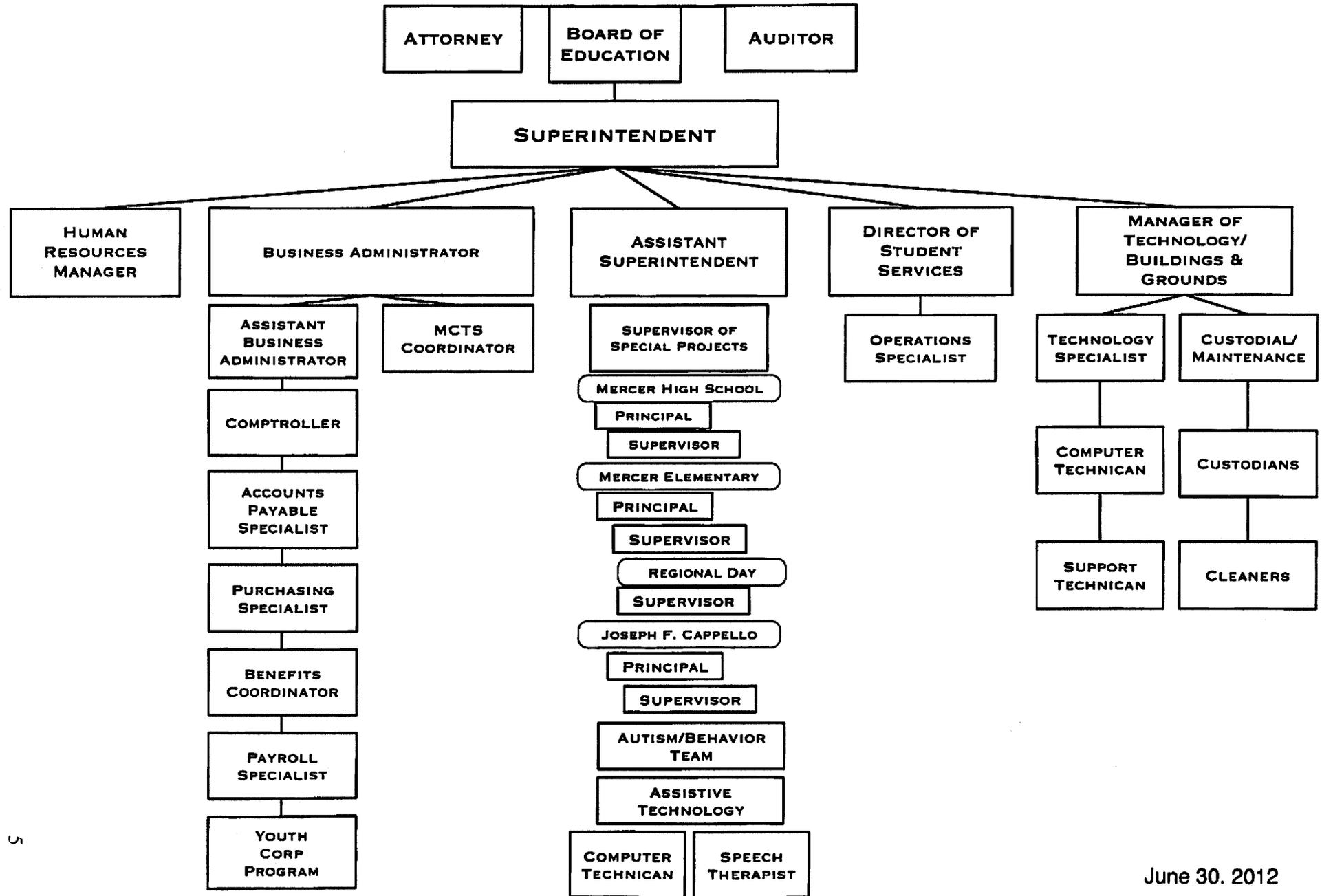


Dr. Kimberly J. Schneider
Superintendent



Nancy R. Swirsky
School Business Administrator/
Board Secretary

Mercer County Special Services School District



Mercer County Special Services School District
Mercer County, New Jersey

Roster of Officials

June 30, 2012

<u>Members of the Board of Education</u>	<u>Term Expires</u>
Dana Hice-DPugh, President	2014
Camille Raineiro, Vice-President	2014
Samuel J. Floyd	2014
Lisa Vena	2013
Russell White	2012
Jan Lewis	2014
Dr. Samuel Stewart, Executive County Superintendent of Schools	Ex-Officio

Other Officials

Dr. Kimberly J. Schneider, Superintendent of Schools
Nancy R. Swirsky, School Business Administrator / Board Secretary
David Miller, Treasurer of School Monies

Mercer County Special Services School District
Mercer County, New Jersey

Independent Auditors and Advisors

Independent Auditors

Wiss and Company, LLP
Iselin, New Jersey 08830

Attorneys

Herbert, Van Ness, Cayci & Goodell
Lawrenceville, New Jersey 08648

Official Depositories

New Jersey Cash Management
PNC Bank
New Jersey Asset and Rebate Management Program

Financial Section

Basic Financial Statements



Independent Auditors' Report

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mercer County Special Services School District, County of Mercer, New Jersey (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

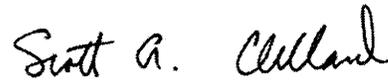
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, which consists of the combining and individual fund financial statements, long-term debt schedules and schedules of expenditures of federal awards and state financial assistance, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, respectively* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying other information, such as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Scott A. Clelland
Licensed Public School Accountant
No. 1049



WISS & COMPANY, LLP

November 20, 2012
Iselin, New Jersey

Required Supplementary Information
Part I

Management's Discussion and Analysis

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

UNAUDITED

The discussion and analysis of Mercer County Special Services School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2012 are as follows:

- ◆ Total net assets increased \$548,514 which represents a 1.1% increase from 2011. The increase was primarily due to an increase in cash offset by a decrease in receivables; which was primarily attributed to the receipt of the County Tax Levy. This increase was partially offset by a decrease in capital assets due to depreciation.
- ◆ Total assets of governmental activities increased by \$612,910, cash increased \$3,395,404, receivables decreased by \$2,353,854, and capital assets, net decreased by \$612,036.
- ◆ Total liabilities decreased by \$20,347, as payables and other current liabilities decreased by \$102,573, non-current liabilities (sick leave reimbursement and early retirement benefit incentives) increased by \$82,226.
- ◆ General revenues from Tuition accounted for \$32,248,829 or 65.0% and revenues from County Tax Levy of \$2,870,529 accounted for 5.8% of all revenues. Business-type revenues of \$10,806,603 accounted for 21.8% of all revenues.
- ◆ Total spending for all programs was \$49,882,048.
- ◆ The General Fund had \$38,467,140 in revenues and \$37,119,222 in expenditures. The General Fund's balance increased \$1,347,918 as compared to 2011. The increase was primarily related to a reduction in health benefit costs due to the change to the medical portion of the State Health Benefit Plan.

Using this Comprehensive Annual Financial Report (CAFR)

This CAFR consists of a series of basic financial statements and notes to those basic statements. These statements are organized so the reader can understand the Mercer County Special Services School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. The three components that comprise the District's basic financial statements are: government-wide financial statements; fund financial statements; and notes to the basic financial statements. The CAFR also contains required and other supplementary information in addition to the basic financial statements themselves.

Reporting the School District as a Whole

Government-wide Activities

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. In the case of the Mercer County Special Services School District, the General Fund is by far the most significant fund.

While this document contains a number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011/12?" The *Statement of Net Assets* and the *Statement of Activities* helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, whether the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's County property tax base, current laws in New Jersey restricting Districts revenue growth, facility condition, required educational programs, student enrollment and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the District is divided into two distinct kinds of activities:

- ◆ Governmental-Type Activities – All of the District's programs and services are reported here including, but not limited to, instruction, support services, operation and maintenance of plant facilities and extracurricular activities.
- ◆ Business-Type Activities – These services are provided on a charge for goods or services basis to recover all the expense of the goods or services provided. Various enterprise funds are reported as a business activity and are listed in the Notes to Basic Financial Statements, Note 1C.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major (all) funds is included in the 2011-12 Comprehensive Annual Financial Report as presented by the District. Fund financial statements provide detailed information about the District's major funds. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The fund financial statements are utilized for District financial decision making.

Governmental Funds

The District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, special revenue fund and capital projects fund, all of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund and special revenue fund. Budgetary comparison statements have been provided as required supplementary information for the general fund and special revenue fund to demonstrate compliance with this budget. The basic governmental fund financial statements are Schedules B-1, B-2 and B-3.

Enterprise Funds

The District maintains nine (9) enterprise funds, which are proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the operations of its food service program, Mercer Cooperative Transportation System, NJ State Regional Day School at Hamilton, integrated preschool, assisted augmentive technology, clinic parent, community resources, special aides and Chuck's Place programs, all of which are considered to be major funds of the District. The basic enterprise fund financial statements are Schedules B-4, B-5 and B-6.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses trust funds to account for the activity in its donation trust fund, AFLAC trust fund and unemployment compensation trust fund. The District uses agency funds

to account for resources held for student activities and groups and payroll-related liabilities. The basic fiduciary fund financial statements are Schedules B-7 and B-8.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32 through 57 of this report.

The School District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Net assets may serve as an indicator of a government's financial position. However, as noted earlier, net assets are not the primary basis for decision making for each budget cycle. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the increase and decrease of compensated absences, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following table provides a summary comparison of the District's net assets for 2012 and 2011.

Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and Cash Equivalents	\$ 9,852,477	\$ 6,473,849
Accounts Receivable	1,569,704	4,211,234
Inventories	39,084	26,585
Restricted assets:		
Cash and Cash Equivalents	1,151,066	750,824
Capital Assets, Non-Depreciable	290,375	38,274
Capital Assets, Net	<u>38,912,706</u>	<u>39,786,380</u>
Total Assets	<u>51,815,412</u>	<u>51,287,146</u>
Liabilities:		
Accounts Payable and Accrued Liabilities	478,015	588,620
Intergovernmental Payable to State	23,231	93
Intergovernmental Payable to Federal	-	976
Unearned Revenue	8,968	34,156
Noncurrent Liabilities:		
Due Within One Year	55,862	44,704
Due Beyond One Year	<u>2,179,872</u>	<u>2,097,646</u>
Total Liabilities	<u>2,745,948</u>	<u>2,766,195</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	39,185,732	39,789,958
Restricted for:		
Other Purposes	1,151,066	750,824
Unrestricted	<u>8,732,666</u>	<u>7,980,169</u>
Total Net Assets	<u>\$ 49,069,464</u>	<u>\$ 48,520,951</u>

Total assets increased by \$528,266. The increase resulted from an increase in cash offset by a decline in accounts receivable, which is attributed to the timing of collections from the county and a decline in net capital assets due to depreciation expense.

Total liabilities increased by \$20,247. The District's current liabilities decreased \$102,473 and noncurrent liabilities increased by \$82,226. The current liabilities decrease resulted primarily from a decrease in the District's accounts payables as of June 30, 2012 versus June 30, 2011.

Restricted net assets increased due to a transfer of \$400,000 into the capital reserve during 2012. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities, without constraints established by grants or legal requirements of the District, increased by \$752,497, largely due to a reduction in overall health benefit costs related to the change to the State Health Benefit Plan during fiscal year 2011.

The following table provides a comparison analysis of government-wide changes in net assets from fiscal years 2012 and 2011.

**Changes in Net Assets
Years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues:		
Program Revenues:		
Charges for Services	\$10,461,207	\$ 11,235,037
Operating Grants and Contribution	1,250,063	1,738,819
Capital Grants and Contributions	252,101	38,274
General Revenues:		
County Appropriation	2,870,529	2,870,529
Tuition - LEAs	32,065,344	33,595,981
Nonresident Fees	183,485	170,013
State and Federal Sources	3,052,318	2,818,167
Interest Earned on Investment	7,872	14,362
Miscellaneous Income	<u>287,643</u>	<u>355,192</u>
Total Revenues	<u>50,430,562</u>	<u>52,836,374</u>
Governmental Activities Expenses:		
Instruction:		
Special Education Instruction	23,222,186	23,158,192
Support Services:		
Student and Instruction Related Services	9,831,565	10,695,312
General Administration	335,027	449,249
School Administration	1,462,521	1,417,875
Central Services	842,546	883,952
Administration Information Technology	438,483	429,035
Plant Operations and Maintenance	2,829,359	2,943,122
Pupil Transportation	<u>19,774</u>	<u>68,936</u>
Total Governmental Functions/Program Expenses	<u>38,981,461</u>	<u>40,045,673</u>

Changes in Net Assets
Years ended June 30, 2012 and 2011
(continued)

	<u>2012</u>	<u>2011</u>
Business-Type Expenses:		
Food Services	\$ 466,037	\$ 472,240
Mercer Cooperative Transportation System	6,047,738	6,577,813
NJ State Regional Day School at Hamilton	2,207,361	2,257,360
Integrated Preschool	231,902	160,782
Assisted Augmentative Technology	24,685	34,813
Clinic Parent	26,566	37,904
Community Resources	80,279	274,074
Special Aides	1,743,632	1,737,379
Chuck's Place	<u>72,387</u>	<u>82,129</u>
Total Business-Type Activities Expenses	<u>10,900,587</u>	<u>11,634,494</u>
Total Expenses	<u>49,882,048</u>	<u>51,680,167</u>
Increase in Net Assets	548,514	1,156,207
Net Assets, Beginning of Year	<u>48,520,950</u>	<u>47,364,744</u>
Net Assets, End of Year	<u>\$ 49,069,464</u>	<u>\$ 48,520,951</u>

Activity Descriptions

Special Education Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student.

Student and Instruction Related Services expenses include the activities designed to assess and improve the well being of students and to supplement the teaching process.

School and Other Administrative services include expenses associated with establishing and administering policy for the District including financial supervision.

Plant operation and maintenance of plant activities involve keeping the school grounds, buildings and equipment in a safe and effective working condition for students and staff.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from student activities as provided by State law and Board Policy.

GOVERNMENT-TYPE ACTIVITIES

At June 30, 2012, Governmental-Type Activities net assets were 95.1% of the District's total net assets.

The Governmental-Type Activities net assets increased \$642,498 from \$45,980,475 at June 30, 2011 to \$46,622,973 at June 30, 2012.

In FY 2012 Governmental-Type Activities revenues were \$ 39,623,959 or 78.6% of total revenues.

In FY 2012 General Revenues - County Appropriation of \$2,870,529 made up 7.5%, and General Revenues - Tuition LEA's of \$32,065,344 made up 83.4% of the Governmental-Type Activities revenues.

In FY 2012 the District's Governmental-Type Activities expenditures were \$38,981,461 compared to \$40,045,673 for FY 2011, a decrease of \$1,064,212 or 2.7%.

BUSINESS-TYPE ACTIVITIES

At June 30, 2012, Business-Type Activities net assets were 4.9% of the District's total net assets.

Business-Type Activities net assets decreased \$93,985 from \$2,540,476 at June 30, 2011 to \$2,446,491 at June 30, 2012.

In FY 2012 Business-Type Activities revenues were \$10,804,603.

Charges for Services and Operating Grants and Contributions for Business-Type Activities were \$10,804,552 in FY 2012 compared to \$11,578,012 in FY 2011, a 6.7% decrease. The decrease was related to the reduction of transportation services and community resources services during FY 2012.

Expenses for Business-Type Activities were \$10,900,587 in FY 2012 compared to \$11,634,494 in FY 2011, a 6.3% decrease. The decrease was related to the reduction of transportation services and community resources services during FY 2012.

Financial Analysis of the District's Funds

The District uses funds to control and manage money for particular purposes. The Fund's basic financial statements allow the District to demonstrate its stewardship over and accountability for resources received from the County of Mercer, State of New Jersey and other entities. These statements also allow the reader to obtain more insight into the financial workings of the District, and assess further the District's overall financial health.

As the District completed the fiscal year ended June 30, 2012, it reported a general fund balance of \$10,018,571 which is an increase of \$1,347,918. The Reconciliation of the Statement of Revenue Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, Exhibit B-2, presents the reader with a detailed explanation of the increase in fund balance for the fiscal year.

Governmental Funds (Schedules B-1 and B-2)

Governmental funds are accounted for using the modified accrual basis of accounting. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources. Such information is essential in assessing the District's financing requirements.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility of sound financial management. The following schedules represent revenues and expenditures from a New Jersey budgetary viewpoint. The first schedule presents a summary of the revenues of the General Fund and Special Revenue Fund for the fiscal year ended June 30, 2012, and the amount and percentage of increases and (decreases) in relation to prior year revenues.

**Revenues
Year Ended June 30, 2012**

<u>Revenue</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>(Decrease) Increase from 2011</u>	<u>Percent of (Decrease) Increase</u>
Local sources	\$ 35,705,873	90.7%	\$ (1,810,141)	(4.8)%
State sources	3,322,120	8.4	53,115	1.6%
Federal sources	343,865	0.9	(91,077)	(20.9)%
Total	\$ 39,371,858	100.0%	\$ (1,848,103)	(0.4)%

The decrease in local sources was mainly attributed to a reduction of tuition from other districts resulting from decreased enrollment and the transfer of the Youth Detention Program from Mercer County to Middlesex County. Federal sources decreased primarily due to the District not participating in the Title I, Part D program during fiscal year 2012.

The following schedule presents a summary of general fund and special revenue fund expenditures for the year ended June 30, 2012, and the amounts and percentage of increase and (decreases) in relation to prior year expenditures.

**Expenditures
Year Ended June 30, 2012**

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) From 2011</u>	<u>Percent of Increase (Decrease)</u>
Current:				
Instruction	\$ 15,080,974	39.7%	\$ 69,273	0.50%
Undistributed expenditures	22,757,437	59.9	(1,198,580)	(5.0)%
Capital outlay	185,529	0.4	(49,829)	(21.2)%
Total	\$ 38,023,940	100.0%	\$ (1,179,136)	(3.0)%

The decrease in undistributed expenditures resulted primarily from the reduction in overall health benefit costs due to the District's change to the State Health Benefit Plan. The capital outlay decrease was a result of fiscal year 2011 purchases of a new school bus for transportation and a van for Youth Corp. Similar purchases were not made during 2012.

General Fund Budgetary Highlights

The District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Throughout the year budget transfers were effectuated between budget accounts to re-align the FY 2012 budget to meet the District's needs.

The final budgetary basis revenue estimate was \$36,590,974. The original budget estimate was \$36,654,462.

The District received \$2,784,346 in reimbursed T.P.A.F. Social Security Aid and T.P.A.F. Pension and Post-Retirement Medical Contributions. These reimbursements are reflected as revenue and expenditures in the General Fund Budgetary Comparison Schedule and have no corresponding budget amounts.

The final budgetary basis expenditure appropriation estimate was \$37,737,632 compared to the original estimate of \$37,909,345.

A schedule showing the District's original and final budget compared with actual operating results is provided in Section C of the CAFR, entitled Budgetary Comparison Schedules. The District generally did better than had been budgeted in its General Fund since it practices conservative budgetary practices in which revenues are forecasted very conservatively and expenditures are budgeted with worst-case scenarios in mind.

The General Fund finished the fiscal year approximately \$1,876,166 better than had been budgeted in terms of revenues and \$618,410 better in terms of expenditures. Both the revenues and appropriations were adjusted for \$2,784,346 of non-budgeted amounts reflected in the comparison schedule for reimbursed TPAF social security contributions and on-behalf TPAF post-retirement medical contributions.

Capital Assets

At the end of fiscal years 2012 and 2011, the District had \$38,840,137 and \$39,452,172 respectively invested in a broad range of governmental activities capital assets, including construction in progress buildings, furniture, vehicles, computers, instructional equipment and other equipment. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirement of assets during the year, and depreciation of depreciable assets for the year. The table below shows the net book value of capital assets at the end of 2012 and 2011 fiscal years.

Capital Assets (Net of Depreciation)

	<u>2012</u>	<u>2011</u>
Construction in Progress	\$ 290,375	\$ 38,274
Site Improvements	118,819	89,531
Buildings and Building Improvements	37,966,333	38,913,179
Machinery and Equipment	<u>464,609</u>	<u>411,188</u>
Total	<u>\$ 38,840,136</u>	<u>\$ 39,452,172</u>

During the current fiscal year, \$419,715 of capital assets was capitalized as additions. Increases in capital assets were offset by depreciation expense for the year.

The District also has business-type activities capital assets, net of accumulated depreciation at June 30, 2012 and 2011 in the amount of \$362,945 and \$372,482, respectively.

Economic Factors and Next Year's Budget

For the 2011-12 school year, the Mercer County Special Services School District was able to sustain its budget through tuition revenues, the county tax levy, and out of county fees.

The \$9,883,732 in Net Restricted and Unrestricted Net Assets for all governmental and business type activities represents the accumulated results of all past years' operations. It means that, if the District had to pay off all bills today, including all of the District's non-capital liabilities (Compensated Absences), and sell all of its assets at net book value, the District would have \$9,883,732 remaining.

The 2011-12 budget was adopted April 6, 2012 based in part on a Board decision not to increase tuition rates and by closely matching services and expenditures to actual enrollment. Due to the State of New Jersey State Financing Reform Act ("SFRA"), funding from the sending districts for the current year was slightly above the previous year. Future increases in State aid based on SFRA calculations and predicting future County Aid will be dependent upon economic conditions.

The District anticipates no increase in enrollment for the 2012-13 fiscal year. The District cannot accurately forecast future enrollment.

If the District were to experience a significant increase in enrollment with no appreciable increase in the County Tax Levy for future budgets, the District will be faced with the following alternatives: (a) limiting programs and services; (b) increasing tuition rates for the sending districts; or (c) increasing other related fees.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Dr. Kimberly J. Schneider, Superintendent at the Board of Education Mercer County Special Services School District, 1020 Old Trenton Road, Hamilton, New Jersey 08690. Also, please visit our website to learn more about our District at www.mcscssd.org.

Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements provide a financial overview of the District's operations. These financial statements present the financial position and operating results of all governmental activities and business-type activities as of and for the year ended June 30, 2012.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 8,314,441	\$ 1,538,036	\$ 9,852,477
Internal Balances	744,501	(744,501)	-
Accounts Receivable	255,308	1,314,396	1,569,704
Inventories		39,084	39,084
Restricted assets:			
Cash and Cash Equivalents	1,151,066		1,151,066
Capital Assets, Non-Depreciable	290,375		290,375
Capital Assets, Depreciable, Net	38,549,761	362,945	38,912,706
Total Assets	<u>49,305,452</u>	<u>2,509,960</u>	<u>51,815,412</u>
Liabilities			
Accounts Payable	42,457	62,671	105,128
Accrued Liabilities	372,887		372,887
Payable to State Government	23,231		23,231
Unearned Revenue	8,170	798	8,968
Noncurrent Liabilities:			
Due Within One Year	55,862		55,862
Due Beyond One Year	2,179,872		2,179,872
Total Liabilities	<u>2,682,479</u>	<u>63,469</u>	<u>2,745,948</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	38,822,787	362,945	39,185,732
Restricted For:			
Other Purposes	1,151,066		1,151,066
Unrestricted	6,649,120	2,083,546	8,732,666
Total Net Assets	<u>\$ 46,622,973</u>	<u>\$ 2,446,491</u>	<u>\$ 49,069,464</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Total
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
Instruction:							
Special Education	\$ 23,177,728		\$ 220,813		\$ (22,956,915)		\$ (22,956,915)
School Sponsored/Other Instructional	44,458				(44,458)		(44,458)
Support Services:							
Student and Instruction Related Services	9,831,565		683,905		(9,147,660)		(9,147,660)
General Administrative Services	335,027				(335,027)		(335,027)
School Administrative Services	1,462,521				(1,462,521)		(1,462,521)
Central Administrative Services	842,546				(842,546)		(842,546)
Administrative Information Technology	438,483				(438,483)		(438,483)
Plant Operations and Maintenance	2,829,359			\$ 252,101	(2,577,258)		(2,577,258)
Pupil Transportation	19,774				(19,774)		(19,774)
Total Governmental Activities	<u>38,981,461</u>		<u>904,718</u>	<u>252,101</u>	<u>(37,824,642)</u>		<u>(37,824,642)</u>
Business-type Activities:							
Food Service	466,037	\$ 85,117	345,345			\$ (35,575)	(35,575)
Mercer Cooperative Transportation System	6,047,738	6,047,738					-
NJ State Regional Day School	2,207,361	2,093,495				(113,866)	(113,866)
Integrated Preschool	231,902	266,112				34,210	34,210
Assisted Augmentative Technology	24,685	25,665				980	980
Clinic Parent	26,566	32,570				6,004	6,004
Community Resources	80,279	99,021				18,742	18,742
Chuck's Place	72,387	73,605				1,218	1,218
Special Aides	1,743,632	1,737,884				(5,748)	(5,748)
Total Business-type Activities	<u>10,900,587</u>	<u>10,461,207</u>	<u>345,345</u>			<u>(94,035)</u>	<u>(94,035)</u>
Total Primary Government	<u>\$ 49,882,048</u>	<u>\$ 10,461,207</u>	<u>\$ 1,250,063</u>	<u>\$ 252,101</u>	<u>(37,824,642)</u>	<u>(94,035)</u>	<u>(37,918,677)</u>
General Revenues:							
County appropriation/taxes					2,870,529		2,870,529
Tuition - LEA's					32,065,344		32,065,344
Nonresident Fees					183,485		183,485
State and Federal Sources					3,052,318		3,052,318
Interest Earnings					7,821	51	7,872
Miscellaneous					287,643		287,643
Total General Revenues					<u>38,467,140</u>	<u>51</u>	<u>38,467,191</u>
Changes in Net Assets					642,498	(93,984)	548,514
Net Assets - Beginning					45,980,475	2,540,475	48,520,950
Net Assets - Ending					<u>\$ 46,622,973</u>	<u>\$ 2,446,491</u>	<u>\$ 49,069,464</u>

Fund Financial Statements

Governmental Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2012

	Major Funds			Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	
Assets				
Cash and Cash Equivalents	\$ 8,293,376	\$ 21,065		\$ 8,314,441
Interfund Receivable	775,409			775,409
Accounts Receivable:				
State	4,914			4,914
Federal	53,479	17,291		70,770
Other	143,086		\$ 36,538	179,624
Restricted Cash and Cash Equivalents	1,151,066			1,151,066
Total Assets	\$ 10,421,330	\$ 38,356	\$ 36,538	\$ 10,496,224
Liabilities and Fund Balances				
Liabilities:				
Interfund Payable			\$ 30,908	\$ 30,908
Accounts Payable	\$ 29,872	\$ 6,955	5,630	42,457
Accrued Liabilities	372,887			372,887
Intergovernmental Payables:				
State		23,231		23,231
Deferred Revenue		8,170		8,170
Total Liabilities	402,759	38,356	36,538	477,653
Fund Balances:				
Restricted for:				
Capital Reserve	1,151,066			1,151,066
Assigned to:				
Designated for Subsequent Years' Expenditures	3,723,123			3,723,123
Other Purposes	13,739			13,739
Unassigned	5,130,643			5,130,643
Total Fund Balances	10,018,571			10,018,571
Total Liabilities and Fund Balances	\$ 10,421,330	\$ 38,356	\$ 36,538	10,496,224

Amounts reported for *governmental activities* in the statement of net assets (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$54,601,327 and the accumulated depreciation is \$15,761,191 (See Note 4). 38,840,136

Long-term liabilities, including obligations under capital leases and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the fund (See Note 5). (2,235,734)

Net Assets of Governmental Activities \$ 46,622,973

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year ended June 30, 2012

	Major Funds			Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	
Revenues:				
Local Sources:				
County Appropriation/Tax Levy	\$ 2,870,529		\$ 252,101	\$ 3,122,630
Tuition from Other Districts	28,721,331			28,721,331
Other Tuition	3,344,013			3,344,013
Non-Resident Fees	183,485			183,485
Interest	7,821			7,821
Miscellaneous	287,643	\$ 291,051		578,694
Total - Local Sources	35,414,822	291,051	252,101	35,957,974
State Sources	2,784,693	537,427		3,322,120
Federal Sources	267,625	76,240		343,865
Total Revenues	38,467,140	904,718	252,101	39,623,959
Expenditures:				
Current:				
Instruction:				
Special Education Instruction	14,828,666	220,813		15,049,479
School Sponsored	31,495			31,495
Support Services and Undistributed Costs:				
Student and Instruction Related Services	6,388,900	639,794		7,028,694
General Administration	296,246			296,246
School Administration	990,978			990,978
Central Services	594,996			594,996
Administrative Information Technology	344,075			344,075
Plant Operations and Maintenance	2,401,436			2,401,436
Pupil Transportation	35,745			35,745
Unallocated Benefits	8,280,921			8,280,921
On-behalf TPAF FICA and Pension	2,784,346			2,784,346
Capital Outlay	141,418	44,111	252,101	437,630
Total Expenditures	37,119,222	904,718	252,101	38,276,041
Net change in fund balances	1,347,918	-	-	1,347,918
Fund Balance, July 1	8,670,653	-	-	8,670,653
Fund Balance, June 30	\$ 10,018,571	\$ -	\$ -	\$ 10,018,571

The reconciliation of the fund balances of the governmental funds to the net assets of the governmental activities in the statement of activities is presented in an accompanying schedule (B-3).

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2012

Total Net Change in Fund Balances - Governmental Funds (from B-2) \$ 1,347,918

Amounts reported for governmental activities in the Statement
of Activities (A-2) are different because:

Capital additions for capital assets are reported in governmental funds as expenditures. However, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital additions and disposals in the current fiscal year.

Depreciation Expense	\$ (1,031,751)	
Capital Additions	<u>419,715</u>	(612,036)

In the Statement of Activities, certain operating expenses, e.g., compensated absences (vacation and sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.

(110,731)

Repayment of capital lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.

17,347

Change in Net Assets of Governmental Activities \$ 642,498

Proprietary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 PROPRIETARY FUND

STATEMENT OF FUND NET ASSETS

June 30, 2012

	Major Enterprise Funds									Totals
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Assisted Augmentative Technology	Clinic Parent	Community Resources	Special Aides	Chuck's Place	
Assets										
Current Assets:										
Cash and Cash Equivalents	\$ 21,160		\$ 508,075	\$ 476,589	\$ 46,143	\$ 24,515	\$ 461,315		\$ 239	\$ 1,538,036
Accounts Receivable:										
State	280									280
Federal	17,710									17,710
Other	22,032	\$ 472,517	435,393	59,829	4,400		30,049	\$ 272,186		1,296,406
Inventories	36,092								2,992	39,084
Total Current Assets	97,274	472,517	943,468	536,418	50,543	24,515	491,364	272,186	3,231	2,891,516
Capital Assets										
Site Improvements			9,500							9,500
Equipment	200,360		28,443	10,399	31,174					270,376
Building and Building Improvements			291,975							291,975
Accumulated Depreciation	(154,191)		(40,046)	(173)	(14,496)					(208,906)
Total Capital Assets, Net	46,169		289,872	10,226	16,678					362,945
Total Assets	143,443	472,517	1,233,340	546,644	67,221	24,515	491,364	272,186	3,231	3,254,461
Liabilities										
Interfund Payable		472,315						272,186		744,501
Accounts Payable	25,607		35,711				408		945	62,671
Unearned Revenue	798									798
Total Liabilities	26,405	472,315	35,711				408	272,186	945	807,970
Net Assets										
Invested in Capital Assets, Net of										
Related Debt	46,169		289,872	10,226	16,678					362,945
Unrestricted	70,869	202	907,757	536,418	50,543	24,515	490,956	-	2,286	2,083,546
Total Net Assets	\$ 117,038	\$ 202	\$ 1,197,629	\$ 546,644	\$ 67,221	\$ 24,515	\$ 490,956	\$ -	\$ 2,286	\$ 2,446,491

See independent auditors' report and accompanying notes to the basic financial statements.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2012

	Major Enterprise Funds								Totals	
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Assisted Augmentative Technology	Clinic Parent	Community Resources	Special Aides		Chuck's Place
Operating Revenues:										
Local Sources										
Daily Sales - Reimbursable Programs	\$ 70,635									\$ 70,635
Daily Sales - Non-Reimbursable Programs	14,482									14,482
Transportation Fees		\$ 6,047,738								6,047,738
Non-Resident Fees			\$ 55,145							55,145
Miscellaneous					\$ 25,665	\$ 32,570	\$ 99,021	\$ 1,737,884	\$ 73,605	1,968,745
Tuition			2,038,350	\$ 266,112						2,304,462
Total Operating Revenues	85,117	6,047,738	2,093,495	266,112	25,665	32,570	99,021	1,737,884	73,605	10,461,207
Operating Expenses:										
Salaries	154,798	201,359	1,551,874	142,098	16,642	26,549	68,215	1,122,411		3,283,946
Employee Benefits	47,300	65,689	399,964	45,917			6,432	621,221		1,186,523
Purchased Professional/Technical Services	193	4,000	16,271	24,184						44,648
Cleaning, Repair and Maintenance									2,110	2,110
Contracted Services		5,768,998								5,768,998
Other Purchased Services			49,953							49,953
Insurance	21,310		20,006							41,316
Miscellaneous Purchased Services	1,552									1,552
Supplies and Materials	21,975	3,235	46,293		3,537	17	2,956		70,174	148,187
Energy	1,073		76,375							77,448
Telephone/Communications/Postage	877	3,747	21,605				1,732			27,961
Textbooks			3,335							3,335
Transportation			1,560							1,560
Travel							644			644
Cost of Sales	170,159									170,159
Miscellaneous Expenditures	6,838	710					300		103	7,951
Admin & Supervision	23,575			19,530						43,105
Other	4,143		2,219							6,362
Depreciation Expense	12,244		17,906	173	4,506					34,829
Total Operating Expenses	466,037	6,047,738	2,207,361	231,902	24,685	26,566	80,279	1,743,632	72,387	10,900,587
Operating (Loss) Income	(380,920)	-	(113,866)	34,210	980	6,004	18,742	(5,748)	1,218	(439,380)
Nonoperating Revenues:										
Local Sources:										
Interest on Investments	51									51
State Sources:										
State School Lunch Program	5,303									5,303
Federal Sources:										
National School Lunch Program	210,266									210,266
National School Breakfast Program	106,145									106,145
Food Donation Program	23,631									23,631
Total Nonoperating Revenues	345,396	-	-	-	-	-	-	-	-	345,396
Change in Net Assets	(35,524)	-	(113,866)	34,210	980	6,004	18,742	(5,748)	1,218	(93,984)
Total Net Assets - Beginning	152,562	202	1,311,495	512,434	66,241	18,511	472,214	5,748	1,068	2,540,475
Total Net Assets - Ending	\$ 117,038	\$ 202	\$ 1,197,629	\$ 546,644	\$ 67,221	\$ 24,515	\$ 490,956	\$ -	\$ 2,286	\$ 2,446,491

See independent auditors' report and accompanying notes to the basic financial statements.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 PROPRIETARY FUND

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

	Major Enterprise Funds									
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Assisted Augmentative Technology	Clinic Parent	Community Resources	Special Aides	Chuck's Place	Total
Cash Flows From Operating Activities:										
Receipts from Customers	\$ 85,117	\$ 6,047,738	\$ 2,089,554	\$ 283,668	\$ 32,919	\$ 32,570	\$ 123,966	\$ 1,810,567	\$ 73,605	\$ 10,579,704
Payments to Employees	(154,798)	(201,359)	(1,551,874)	(142,098)	(16,642)	(26,549)	(68,215)	(1,122,411)		(3,283,946)
Payments for Employee Benefits	(47,300)	(65,689)	(399,966)	(45,917)			(6,432)	(621,221)		(1,186,525)
Payments to Suppliers	(290,718)	(5,780,690)	(221,917)	(43,714)	(3,582)	(17)	(5,224)		(74,126)	(6,419,988)
Payments of Interfund								(66,935)		(66,935)
Net Cash (Used In) / Provided By Operating Activities	(407,699)	-	(84,203)	51,939	12,695	6,004	44,095	-	(521)	(377,690)
Cash Flows From Noncapital Financing Activities:										
Cash Received From State and Federal Reimbursements	386,154									386,154
Net Cash Provided By Noncapital Financing Activities	386,154									386,154
Cash Flows From Capital and Related Financing Activities:										
Purchase of Capital Assets - Equipment			(14,891)	(10,400)						(25,291)
Net Cash (Used In) Capital and Related Financing Activities			(14,891)	(10,400)						(25,291)
Cash Flows From Investing Activities:										
Interest Income	51									51
Net Cash Provided By Investing Activities	51									51
Net (Decrease) Increase in Cash and Cash Equivalents	(21,494)		(99,094)	41,539	12,695	6,004	44,095	-	(521)	(16,776)
Cash and Cash Equivalents, Beginning of Year	42,654		607,169	435,050	33,448	18,511	417,220	-	760	1,554,812
Cash and Cash Equivalents, End of Year	\$ 21,160	\$ -	\$ 508,075	\$ 476,589	\$ 46,143	\$ 24,515	\$ 461,315	\$ -	\$ 239	\$ 1,538,036
Reconciliation of Operating (Loss) Income To Net Cash (Used In) Provided By Operating Activities:										
Operating (Loss) Income	\$ (380,920)	\$ -	\$ (113,866)	\$ 34,210	\$ 980	\$ 6,004	\$ 18,742	(5,748)	\$ 1,218	\$ (439,380)
Adjustments To Reconcile Operating (Loss) Income To Net Cash (Used In) Provided By Operating Activities:										
Depreciation	12,244		17,906	173	4,506					34,829
Changes in Assets and Liabilities:										
(Increase) Decrease in Accounts Receivable	(22,032)	149,911	(3,942)	17,556	7,254		24,945	\$ 72,683		246,375
(Increase) in Inventory	(9,953)								(2,546)	(12,499)
(Decrease) Increase in Accounts Payable	(7,038)	-	15,699		(45)		408	-	807	9,831
(Decrease) in Interfund Payable		(149,911)						(66,935)		(216,846)
Net Cash (Used In) / Provided By Operating Activities	\$ (407,699)	\$ -	\$ (84,203)	\$ 51,939	\$ 12,695	\$ 6,004	\$ 44,095	\$ -	\$ (521)	\$ (377,690)

Noncash Noncapital Financing Activities

The District received \$23,139 of food commodities from the U.S. Department of Agriculture for the year ended June 30, 2012.

Fiduciary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Donations Trust Fund	Unemployment Compensation Trust Fund	Agency Fund
Assets			
Cash and Cash Equivalents	\$ 39,698	\$ 85,533	\$ 241,028
Total Assets	39,698	85,533	\$ 241,028
Liabilities			
Accounts Payable	195	22,530	
Payroll Deductions and Withholdings Payable To Student Groups			\$ 220,482 20,546
Total Liabilities	195	22,530	\$ 241,028
Net Assets			
Held in Trust for Unemployment Claims and Other Purposes		\$ 63,003	
Held in Trust for Scholarships	\$ 39,503		

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2012

	Donations Trust Fund	AFLAC Trust Fund	Unemployment Compensation Trust Fund
Additions			
Interest Income			\$ 18
Employee Contributions		\$ 15,750	40,732
Board Contributions			113,035
Other Contributions	\$ 22,943		
Total Additions	<u>22,943</u>	<u>15,750</u>	<u>153,785</u>
Deductions			
Scholarship Payments	17,121		
Medical Reimbursements		15,750	
Unemployment Benefit Payments			130,137
Total Deductions	<u>17,121</u>	<u>15,750</u>	<u>130,137</u>
Change in Net Assets	5,822	-	23,648
Net Assets - Beginning of Year	33,681	-	39,355
Net Assets - End of Year	<u>\$ 39,503</u>	<u>\$ -</u>	<u>\$ 63,003</u>

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies

The financial statements of the Mercer County Special Services School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are disclosed below.

The District is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of appointed officials and is responsible for the fiscal control of the District. The Board is comprised of six members appointed to three year terms as well as the Executive County Superintendent of Schools. The purpose of the School District is to provide programs adapted to each student's unique needs and abilities, in grades pre-K through 12. Focusing on students' capabilities, the District provides specialized academic instructional recreational activities combined with the specialized therapeutic interventions needed to assure that each child reaches their full potential. By carefully structuring each student's program on an individual basis, the District strives to have each student become a productive, self-sufficient member of the community. The Mercer County Special Services School District has an approximate enrollment at June 30, 2012 of 690.

A. Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The District, as the primary government for financial reporting entity purposes, has oversight responsibility and control over all activities related to the Mercer County Special Services School District in Hamilton, New Jersey. The District receives funding from county, state, and federal government sources and must comply with the requirements of these funding source entities. The District is a component unit of Mercer County, however, the County reports its financial statements

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

on a regulatory-basis of accounting which does not recognize or report component units.

The District has no component units that are required to be included within the reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, county appropriations and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements. The New Jersey Department of Education requires that all funds be reported as major to promote consistency among the school districts in the State of New Jersey.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and a capital lease are recorded only when payment is due.

County taxes, interest, and state and federal equalization monies associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year.

The District has reported the following major governmental funds:

General Fund: The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment, which are classified in the capital outlay sub-fund.

Special Revenue Fund: The District maintains one special revenue fund which includes the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes, other than debt service or capital projects.

Capital Projects Fund: The capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to an expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from approved county funds.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

The District reports several major enterprise funds, which are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e., expenses including depreciation and indirect costs) of providing goods or services to the students or other entities on a continuing basis are financed or recovered primarily through user charges. The major enterprise funds include the following funds:

Food Service Fund: The food service enterprise fund accounts for all revenues and expenses pertaining to the food service operations of the District.

Mercer Cooperative Transportation Systems – The mercer cooperative transportation systems fund accounts for the financial transactions related to the transportation of students into the District as well as transportation to other Districts.

NJ State Regional Day School – The NJ state regional day school fund accounts for the financial transactions related to educational services provided to State students.

Integrated Preschool – The integrated preschool fund accounts for the financial transactions related to general integrated services, intensive integrated services, and more intensive integrated services for preschool services.

Assisted Augmentative Technology – The assisted augmentative technology fund accounts for the financial transactions related to the rental of special education equipment to other districts.

Community Resources – The community resources fund accounts for the financial transactions related to various related therapy services provided to other school districts.

Special Aides – The special aides fund accounts for the financial transactions related to special one-on-one aides for students.

Clinical Parent Program – The clinical program fund accounts for the financial transactions related to the therapy and related services of non-classified preschool children who exhibit delays in the areas of speech/language, fine motor, gross motor, and readiness skills.

Chuck's Place – The Chuck's Place fund accounts for the financial transactions related to the workforce training and education provided to the school district's students.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

Additionally, the District reports the following fiduciary fund types:

Fiduciary Funds of the District include the unemployment compensation, donation and AFLAC trust funds and agency funds. The trust funds are reported using the economic resources measurement focus. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations. The following is a description of the fiduciary funds of the District.

Trust and Agency Funds: The trust and agency funds are used to account for assets held by the District on behalf of outside parties, including other governments, or on behalf of other funds within the District.

Trust Funds: The unemployment compensation, donations and AFLAC trust funds are accounted for using the economic resources measurement focus. The unemployment compensation fund is used to account for contributions from the District and employees and interest earned on the balance as well as payments to the State for reimbursement of unemployment claims. The donation trust fund is utilized to provide scholarships to students and to account for the related transactions. The AFLAC trust fund is utilized to account for contributions from employees and payment of medical reimbursements for employees.

Agency Funds (Payroll and Student Activity Fund): Agency funds are used to account for the assets that the District holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

In its accounting and financial reporting, the District follows the pronouncements of the GASB and the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor organizations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The District's business type activities and enterprise funds have elected not to apply the standards issued by the FASB after November 30, 1989.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) fees charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for sales of food, tuition and reimbursements for services provided to other entities. Operating expenses for the enterprise fund include the cost of sales, administrative expenses and depreciation on capital assets, if applicable. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District reports unearned/deferred revenue on its statement of net assets and balance sheet. Unearned/deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned/deferred revenue also arises when resources are received by the District before it has legal claim to them, as when federal assistance is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned/deferred revenue is removed from the statement of net assets and balance sheet and revenue is recognized.

Ad Valorem (Property) taxes are susceptible to accrual as, under New Jersey State Statute, a County is required to remit to the school district the entire balance of taxes in the amount certified prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available.

The County Board of Taxation is responsible for the assessment of properties. Assessments are certified and taxes are levied on January 1; taxes are due February 1, May 1, August 1 and November 1. Unpaid taxes are considered delinquent the following January 1 and are then subject to lien.

D. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general and special revenue funds. The budgets are submitted to the County Office and are voted upon at the annual Board of School Estimates Meeting in April. Budgets are prepared using the modified accrual basis of accounting, except for the Special Revenue Fund. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

All budget amendments / transfers must be approved by Board resolution. All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally-authorized revisions of the annual budgets during the year). The over expenditures in the general fund are due to the inclusion of the non-budgeted on behalf payments made by the State of New Jersey as District expenditures. These amounts are offset by related revenues and as such do not represent over expenditures.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and accounting principles generally accepted in the United States of America with the exception of the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, amounts on deposit, money market accounts, and short-term investments and certificates of deposit with original maturities of three months or less.

Investments are stated at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Board classifies certificates of deposit, which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments and are stated at cost. All other investments are stated at fair value.

F. Tuition Receivable

Tuition charges were established by the District based on estimated costs. The charges are subject to adjustment when the final costs are determined. These adjustments are recorded upon certification by the State Department of Education, which is usually two years following the contract year. The cumulative adjustments through June 30, 2012 which have not been recorded, are not determinable.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

G. Inter-fund Receivables/Payables

Inter-fund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

H. Inventories

Enterprise fund inventories are valued at cost, which approximates market using the first-in, first-out (FIFO) method. At June 30, 2012, the unused Food Donation Program Commodities of \$798 are reported as unearned revenue.

I. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements and machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost through estimation procedures performed by an independent appraisal company. Donated capital assets are valued at their estimated fair market value on the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Capital assets, being depreciated, of the District are depreciated using the straight line method. The following estimated useful lives are used to compute depreciation:

	<u>Years</u>
School Buildings	40
Building Improvements	20
Electrical/Plumbing	20
Light Vehicles	10
Heavy Vehicles	15
Office and Computer Equipment	10
Instructional Equipment	10
Grounds Equipment	15
Proprietary Fund Equipment	12
Software	5

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

J. Compensated Absences

A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The District uses the “vesting method” for estimating its accrued sick and vacation leave liability.

District employees are granted vacation and sick leave in varying amounts under the District’s personnel policies and collective bargaining agreements. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after one year of service. Upon retirement, employees shall be paid by the District for the unused sick time in accordance with the District’s agreements with the various employee unions. Under terms of association agreements, employees earn vacation and sick leave in amounts varying with tenure and classification by the District for the unused sick leave in accordance with Districts agreements with the various employee unions.

The liability for vested compensated absences of the District is recorded in the government-wide financial statements and includes salary related payments.

As of June 30, 2012, a liability existed for compensated absences in the government-wide financial statements in the amount of \$2,218,385 and no liability existed for compensated absences in the proprietary fund types.

K. Deferred Revenue / Unearned Revenue

Deferred revenue in the general fund represents cash for the District’s tuition adjustments which has been received but not yet earned. Deferred revenue in the special revenue fund represents cash which has been received but not yet earned and outstanding encumbrances. Unearned revenue in the enterprise fund represents the unused portion of U.S.D.A. commodities on hand at June 30, 2012.

L. Long-Term Obligations

In the government-wide financial statements and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or enterprise fund type statement of net assets.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

Bonds are authorized in accordance with State law by the Board of Chosen Freeholders of the County through bond ordinances. All bonds are retired in serial instruments within the statutory period of usefulness. The bonds are issued by the Mercer County Improvement Authority and are general obligation bonds. As of January 1, 2008, the County Government of Mercer assumed the debt service outstanding.

M. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five categories, as defined below:

- 1) Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, long-term receivables, and corpus of any permanent funds.
- 2) Restricted - includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- 3) Committed - includes amounts that can be used only for the specific purposes imposed by a formal action of the government's highest level of decision-making authority. The District's highest level of decision-making authority is the Board of Education (the "Board") and formal action is taken by resolution of the Board at publicly held meetings. Once committed, amounts cannot be used for other purposes unless the Board revises or changes the specified use by taking the same action (resolution) taken to originally commit these funds.
- 4) Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent is expressed by either the Board or Business Administrator, to whom the Board has delegated the authority to assign amounts to be used for specific purposes, including the encumbering of funds.
- 5) Unassigned - includes all spendable amounts not contained in the other classifications in the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In the other governmental funds,

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the District first spends committed funds, then assigned funds, and finally, unassigned funds.

Of the \$10,018,571 of fund balance in the General Fund, \$13,739 of encumbrances is assigned to other purposes, \$1,151,066 has been restricted in the capital reserve account, \$3,723,123 has been classified as assigned fund balance designated for subsequent year expenditures, and the remaining \$5,130,643 is classified as unassigned.

N. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and liabilities associated with the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

O. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

P. On-Behalf Payments

Revenues and expenditures of the general fund include payments made by the State of New Jersey for social security contributions and post-retirement pension and medical contributions for certified teachers and other members of the New Jersey Teachers Pension and Annuity Fund. The amounts are not required to be included in the District's annual budget.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

Q. Subsequent Events

Management has reviewed and evaluated all events and transactions that occurred from June 30, 2012 through November 20, 2012, the date that the financial statements were issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including the capital lease and compensated absences are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

Compensated absences	\$ 2,218,385
Capital lease	<u>17,349</u>
Net adjustment to increase fund balance-total governmental funds to arrive at net assets – governmental activities	<u>\$ 2,235,734</u>

3. Deposits and Investments

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts. Additionally, the District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect Government Units from a loss of funds on deposit with a failed banking institution in New Jersey.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

3. Deposits and Investments (continued)

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

Deposits

New Jersey statutes (GUDPA) require that school districts deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. School districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund (NJCMF), New Jersey Asset and Rebate Management Fund (NJARM) and M.B.I.A. Class.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Operating cash accounts are held in the District's name by commercial banking institutions. At June 30, 2012, the District's carrying amount of deposits was \$8,843,445 and the bank balance was \$9,774,685. Of the bank balance, \$250,000 of the District's cash deposits on June 30, 2012 was secured by federal depository insurance. The New Jersey Governmental Unit Deposit Protection Act (GUDPA) covered the remaining bank balance of \$9,524,685.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

3. Deposits and Investments (continued)

The District does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At least five percent of the District's deposits were fully collateralized by funds held by the financial institution, but not in the name of the District. Due to the nature of GUDPA, further information is not available regarding the full amount that is collateralized.

Custodial Credit Risk-Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits, in the form of certificates of deposit, money market accounts and checking accounts, may not be returned to it. The District does not have a deposit policy for custodial credit risk.

Investments

New Jersey statutes permit the Board to purchase the following types of investments:

- a. Bonds and other obligations of the United States or obligations guaranteed by the United States.
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank which have a maturity date not greater than twelve months from the date of purchase.
- c. State of New Jersey Cash Management Fund (NJCMF), New Jersey Asset and Rebate Management Fund (NJARM) and M.B.I.A. Class.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

3. Deposits and Investments (continued)

New Jersey Cash Management Fund

In order to maximize liquidity, the District utilizes the New Jersey Cash Management Fund (“NJCMF”) as its sole investment. The NJCMF is administered by the State of New Jersey, Department of the Treasury and issues a separate report that can be obtained directly from the Department of the Treasury. It invests pooled monies from various State and non-State agencies in primarily short-term investments. The fair value of the District’s portion in the pool is the same as the fair value of the pool shares. These investments include: U.S. Treasuries, short-term Commercial Paper, U.S. Agency Bonds, Corporate Bonds, and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investments rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At June 30, 2012, the District’s balance was \$2,526,357 and is classified as cash equivalents due to its short-term nature.

All investments in the Fund are governed by the regulations of the Investment Council, which prescribes specific standards designed to ensure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment’s existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the “Other-than-State” participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis.

Custodial Credit Risk: The District does not have any investments that are exposed to custodial credit risk and does not have a policy for custodial credit risk.

Credit Risk: The District does not have any investments exposed to credit risk and does not have an investment policy regarding the management of credit risk.

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer and does not have a policy for limiting the concentration of investments. At June 30, 2012, the District’s investments were invested in the NJCMF.

Interest Rate Risk: The District does not have a policy to limit interest rate risk. The average maturity of the District’s investments, the NJCMF is less than one year.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

4. Capital Assets

The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 38,274	\$ 252,101		\$ 290,375
Total capital assets, not being depreciated:	38,274	252,101		290,375
Capital assets, being depreciated:				
Site improvements	\$ 422,930	39,319		462,249
Buildings & building improvements	52,971,154	25,390		52,996,544
Machinery and equipment	<u>779,191</u>	<u>102,905</u>	\$ (29,937)	<u>852,159</u>
Total capital assets, being depreciated	54,173,275	167,614	(29,937)	54,310,952
Less accumulated depreciation for:				
Site improvements	(333,399)	(10,031)		(343,430)
Buildings & building improvements	(14,057,976)	(972,235)		(15,030,211)
Machinery and equipment	<u>(368,002)</u>	<u>(49,485)</u>	<u>29,937</u>	<u>(387,550)</u>
Total accumulated depreciation	<u>(14,759,377)</u>	<u>(1,031,751)</u>	<u>29,937</u>	<u>(15,761,191)</u>
Total capital assets, being depreciated, net	<u>39,413,898</u>	<u>(864,137)</u>	-	<u>38,549,761</u>
Governmental activities capital assets, net	<u>\$ 39,452,172</u>	<u>\$ (612,036)</u>	<u>\$ -</u>	<u>\$ 38,840,136</u>

Depreciation expense was charged to functions/programs of the District as follows:

Special education instruction	\$ 579,960
School Sponsored instruction	1,214
Student and instruction related services	270,863
School administrative services	38,189
General administrative services	11,416
Central services	22,929
Administrative Information Technology	13,260
Plant operations and maintenance	92,544
Pupil Transportation	<u>1,376</u>
	<u>\$ 1,031,751</u>

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

4. Capital Assets (continued)

The following schedule is a summarization of business-type activities changes in capital assets for the year ended June 30, 2012:

	Beginning Balance	Increases	Ending Balance
Business-type activities:			
<i>Capital assets being depreciated:</i>			
Site Improvements	\$ 9,500		\$ 9,500
Equipment	257,535	\$ 12,841	270,376
Building and Building Improvements	279,525	12,450	291,975
Less accumulated depreciation	<u>(174,077)</u>	<u>(34,829)</u>	<u>(208,906)</u>
Total business-type activities capital assets, net	<u>\$ 372,483</u>	<u>\$ (9,538)</u>	<u>\$ 362,945</u>

5. Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences payable	\$ 2,107,654	\$ 189,604	\$ 78,873	\$ 2,218,385	\$ 38,513
Capital lease	<u>34,696</u>	<u>-</u>	<u>17,347</u>	<u>17,349</u>	<u>17,349</u>
Governmental activity long-term liabilities	<u>\$ 2,142,350</u>	<u>\$ 189,604</u>	<u>\$ 96,220</u>	<u>\$ 2,235,734</u>	<u>\$ 55,862</u>

The District expects to liquidate the compensated absences and obligations under the capital lease with payments made from the District's general fund.

Bonds Payable and Bonds Authorized but Not Issued

As of June 30, 2012, the District had no bonds payable and no authorized but not issued bonds.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

5. Long-Term Liabilities (continued)

Capital Leases Payable

The District is leasing a bus totaling \$69,342 under a capital lease, at an interest rate of 3.19%. The following is a schedule of the future minimum lease payments under the capital lease agreement over the remaining life of the lease:

Fiscal Year Ending:	Amount
2013	\$ 17,915
	<u>17,915</u>
Amount representing interest	(566)
Total minimum lease payments	<u>\$ 17,349</u>

Operating Leases

The District has commitments to lease copy machines and a laminator under operating leases that expire in fiscal year 2015. Total operating lease payments made during the year ended June 30, 2012 were \$61,110. Future minimum lease payments are as follows:

Fiscal Year Ending	Amount
2013	\$ 55,370
2014	27,597
2015	<u>14,520</u>
Total minimum lease payments	<u>\$ 97,487</u>

6. Pension Plans

Description of Systems

Substantially all of the District's employees participate in one of the following contributory defined benefit public employee retirement systems which have been established by State statute: the Teachers' Pension and Annuity Fund (TPAF) or the Public Employees' Retirement System (PERS). These systems are sponsored and administered by the State of New Jersey. The Teachers' Pension and Annuity Fund Retirement System is considered a cost-sharing multiple-employer plan, with a special funding situation, as under current statute, all employer contributions are made by the State of

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

6. Pension Plans (continued)

New Jersey on behalf of the Board and the system's other related non-contributing employers. The Public Employees' Retirement System is considered a cost-sharing multiple-employer plan.

Teachers' Pension and Annuity Fund

The Teachers' Pension and Annuity Fund was established in January 1955 under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time public school employees in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for health care coverage.

Members hired before July 1, 2007 are eligible for retirement at age 55, with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Members hired after May 22, 2012 are eligible for retirement at age 60, with an annual benefit generally determined to be N/60 of the five (5) highest years on the social security base salary. Early retirement is available for these systems to those employees under age 55 participating in TPAF or PERS with 25 or more years of credited service. Anyone who retires early and is under age 55 or under age 60 after May 22, 2012 receives retirement benefits as calculated in the above mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age 55 and therefore 1% for each year between 55 and 60).

Public Employee's Retirement System

The Public Employees' Retirement System was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school Board or public agency provided the employee is not a member of another State-administered retirement public agency, provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service.

Members hired before July 1, 2007 are eligible for retirement at age 55, with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Members hired after May 22, 2012 are eligible for retirement at age 60, with an annual benefit generally determined to be N/60 of the five (5) highest years on the social security base salary. Early retirement is available for these systems to those employees under age 55 participating in TPAF or PERS with 25 or more years of credited service. Anyone who retires early and is under age 55 or under age 60 after May 22, 2012 receives retirement benefits as calculated in the above

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

6. Pension Plans (continued)

mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age 55 and therefore 1% for each year between 55 and 60).

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for TPAF and PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of 6.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the Board is a non-contributing employer of the TPAF.

During the year ended June 30, 2012, the State of New Jersey contributed \$1,596,250 to the TPAF for on-behalf pension and post-retirement medical benefits on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$1,188,096 during the year ended June 30, 2012 for the employer's share of social security contributions for TPAF members as calculated on their base salaries.

The District's actuarially determined contributions for the normal costs of PERS for each of the years ended June 30, 2012, 2011 and 2010 were \$302,222, \$363,215, and \$301,518 respectively.

7. Post-Retirement Benefits

Plan Description

The District contributes to the New Jersey State Health Benefits Program ("SHBP"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP provide medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Program Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

7. Post-Retirement Benefits (continued)

the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pension and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SHBP. That report may be obtained by writing to Division of Pension and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Funding Policy

P.L. 1987, Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required Teachers' Pension and Annuity Fund (TPAF) and Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2011, there were 93,323 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c. 126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$144 million toward Chapter 126 benefits for 15,709 eligible retired members in Fiscal Year 2011.

The State will set the contribution rate based on the *annual required contribution of the employers* (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the SHBP Fund for TPAF retirees' post-retirement benefits on behalf of the District for the years ended June 30, 2012, 2011 and 2010 were \$1,065,980, \$1,243,108, and \$1,207,326, respectively, which equaled the required contributions for each year. The State's contributions to the SHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance

The District maintains insurance coverage for property, liability, student accident and surety bonds and does not retain risk of loss. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years.

New Jersey Unemployment Compensation Insurance

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State.

The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's unemployment trust fund for the past three years:

Fiscal Year	Board and RDS Contributions	Employee Contributions	Interest on Investments	Amount Paid or Accrued	Ending Balance
2011-12	\$ 113,035	\$ 40,732	\$ 18	\$ 130,137	\$ 63,003
2010-11	215,000	60,820	83	319,476	39,355
2009-10	112,459	44,514	310	167,083	82,928

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

8. Risk Management (continued)

Joint Insurance Pool

The District is a member of the Burlington County Insurance Pool Joint Insurance Fund.

The Fund provides the District with the following coverage:

- Property, Inland Marine and Automobile Physical Damage
- Boiler and Machinery
- Crime
- General and Automobile Liability
- Workers' Compensation
- Educators' Legal Liability
- Pollution Legal Liability

Annual contributions to the Fund are determined by the Fund's Board of Trustees. The District is jointly and personally liable for claims insured by the Fund and its members during the period of its membership, including liability for supplemental assessments, if necessary. The Fund's Board of Trustees may authorize refunds to its members in any fund year for which contributions exceed the amount necessary to fund all obligations for that year.

9. Deferred Compensation

The District offers its employees a choice of various deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457(b). The plans, which are administered by various insurance companies, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency. Participants' rights under the plan are equal to those of general creditors in an amount equal to the fair market value of the deferred account of each participant. The District has no liability for losses under the plan. Since the District does not hold the assets in a trustee capacity, the related assets are not included in the District's Fiduciary Fund Financial Statements.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

10. Interfund Receivables and Payables

The total inter-fund accounts receivables and payables for the District are as follows at June 30, 2012:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 775,409	
Capital Projects Fund		\$ 30,908
Enterprise Fund – Special Aides		272,186
Enterprise Fund – Cooperative Transportation		472,315
	<u>\$ 775,409</u>	<u>\$ 775,409</u>

The general fund interfund receivable is comprised of three interfunds. The interfunds with the capital projects fund, the special aides enterprise fund and the cooperative transportation enterprise fund represent loans to eliminate a pooled cash deficit. All interfunds are expected to be paid within one year.

11. Economic Dependency

The District receives a substantial amount of its support from federal, state and county governments. A significant reduction in the level of support, if this were to occur, could have an effect on the District's programs and activities.

12. Contingent Liabilities

The District is also involved in several claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the District.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing other federal and state grants; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

13. Capital Reserve Account

A capital reserve account was established by the District by inclusion of \$526,711 in June of 1995 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

13. Capital Reserve Account (continued)

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the Department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfers by Board resolution at year end (June 1 and June 30) of any unanticipated revenue or unexpended line item appropriation amounts, or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6A:23A-5.1(d)7, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 2011 to June 30, 2012 fiscal year is as follows:

Beginning balance, July 1, 2011	\$ 750,824
Increased by:	
Interest earnings	242
Deposit approved in June 2012 Board Resolution	400,000
Ending balance, June 30, 2012	<u>\$ 1,151,066</u>

At June 30, 2012, the amount deposited in the capital reserve account does not exceed the District's local share reported in its Long-Range Facility Plan.

14. Commitments

The District has contractual commitments at June 30, 2012 to various vendors, which are recorded in the general fund as fund balance assigned to other purposes in the amount of \$13,739.

The District also has \$39,005 of encumbrances outstanding at June 30, 2012 for various construction contracts recorded in the capital projects fund. The encumbrances were offset against the undesignated deficit.

15. Restricted Assets

The District has \$1,151,066 of capital reserve funds that are classified as restricted assets on the statement of net assets because they are restricted by the New Jersey Department of Education to be utilized for future capital projects that have been approved in the District's Long-Range Facility Plan.

Mercer County Special Services School District

Notes to the Basic Financial Statements (continued)

Year ended June 30, 2012

16. Calculation of Excess Surplus

Special service school districts are subject to an excess surplus calculation in accordance with N.J.S.A. 18A.46-31, as amended. This calculation will be performed by the Department of Education during the tuition rate certification process.

Required Supplementary Information
Part II
Budgetary Comparison

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
REVENUES:					
Local Sources:					
County Tax Levy	\$ 2,870,529		\$ 2,870,529	\$ 2,870,529	
Tuition From LEA's	29,907,979		29,907,979	28,721,331	\$ (1,186,648)
Other Tuition	3,163,929	\$ 2,562	3,166,491	3,344,013	177,522
Non-Resident Fees	75,275		75,275	183,485	108,210
Interest Earned	22,000		22,000	7,579	(14,421)
Interest Earned on Capital Reserve Funds	1,000		1,000	242	(758)
Unrestricted Miscellaneous Revenues	381,250	(66,050)	315,200	287,643	(27,557)
Total Local Sources	36,421,962	(63,488)	36,358,474	35,414,822	(943,652)
State Sources:					
On-Behalf TPAF Pension Contributions				1,596,250	1,596,250
Reimbursed TPAF Social Security				1,188,096	1,188,096
Other State Aid				347	347
Total State Sources				2,784,693	2,784,693
Federal Sources:					
Medicaid Reimbursement	232,500		232,500	267,625	35,125
Total Federal Sources	232,500		232,500	267,625	35,125
Total Revenues	36,654,462	(63,488)	36,590,974	38,467,140	1,876,166
EXPENDITURES:					
Current Expense:					
Special Education - Instruction:					
Behavioral Disabilities:					
Salaries of Teachers	713,461	14,608	728,069	728,069	
Other Salaries for Instruction	202,646	14,145	216,791	216,791	
General Supplies	9,500	111	9,611	9,611	
Textbooks	3,500	(3,199)	301	301	
Other Objects	2,600		2,600	2,600	
Total Behavioral Disabilities	931,707	25,665	957,372	957,372	
Multiple Disabilities:					
Salaries of Teachers	3,499,424	110,926	3,610,350	3,606,835	3,515
Other Salaries for Instruction	1,649,306	(68,663)	1,580,643	1,554,220	26,423
Other Purchased Services	550	828	1,378	1,356	22
General Supplies	120,895	(11,821)	109,074	93,824	15,250
Textbooks	22,200		22,200	8,557	13,643
Other Objects	3,500		3,500	2,509	991
Total Multiple Disabilities	5,295,875	31,270	5,327,145	5,267,301	59,844
Autism:					
Salaries of Teachers	2,430,589	(24,111)	2,406,478	2,355,107	51,371
Other Salaries for Instruction	1,460,749	52,972	1,513,721	1,503,993	9,728
General Supplies	27,300		27,300	19,147	8,153
Textbooks	6,000		6,000	335	5,665
Other Objects	2,900	760	3,660	1,911	1,749
Total Autism	3,927,538	29,621	3,957,159	3,880,493	76,666
Preschool Disabilities - Full-Time:					
Salaries of Teachers	588,981	(71,592)	517,389	511,745	5,644
Other Salaries for Instruction	490,636	(103,082)	387,554	387,369	185
General Supplies	14,600		14,600	13,282	1,318
Other Objects	1,000		1,000		1,000
Total Preschool Disabilities - Full-Time	1,095,217	(174,674)	920,543	912,396	8,147
Extended School Year:					
Salaries of Teachers	1,629,070	(186,118)	1,442,952	1,442,952	
Salaries of Supervisors of Instruction	131,697	92,036	223,733	223,733	
Other Salaries for Instruction	821,878	(15,521)	806,357	806,357	
Other Purchased Services	86,784	(45,648)	41,136	41,136	
Total Extended School Year	2,669,429	(155,251)	2,514,178	2,514,178	
Cognitive - Severe:					
Salaries	697,950	38,758	736,708	734,270	2,438
Other Salaries for Instruction	506,291	49,072	555,363	551,192	4,171
General Supplies	13,321	1,855	15,176	11,227	3,949
Textbooks	5,400	(2,300)	3,100		3,100
Other Objects	1,500	(45)	1,455	237	1,218
Total Cognitive - Severe	1,224,462	87,340	1,311,802	1,296,926	14,876
Total Special Education - Instruction	15,144,228	(156,029)	14,988,199	14,828,666	159,533
Home Instruction:					
Salaries	21,000	(586)	20,414	20,414	
Supplies and Materials	15,000	586	15,586	11,081	4,505
Total School-Sponsored Co/Extra-Curr. Activities - Instruction	36,000	-	36,000	31,495	4,505
Total Instruction	15,180,228	(156,029)	15,024,199	14,860,161	164,038

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
EXPENDITURES (CONTINUED):					
Undistributed Expenditures					
Health Services:					
Salaries	\$ 500,371	\$ 5,429	\$ 505,800	\$ 501,024	\$ 4,776
Purchased Professional and Technical Services	40,115		40,115	40,115	
Other Purchased Services	2,650	(1,091)	1,559	1,559	
Supplies and Materials	18,300	(4,338)	13,962	13,839	123
Total Health Services	561,436		561,436	556,537	4,899
Other Support Serv. - Students - Related Services:					
Salaries	4,296,430	(67,004)	4,229,426	3,967,536	261,890
Purchased Professional - Educational Services	75,000	67,004	142,004	142,004	
Supplies and Materials	21,650		21,650	15,955	5,695
Total Other Support Serv. - Students - Related Services	4,393,080		4,393,080	4,125,495	267,585
Child Study Team:					
Salaries of Other Professional Staff	1,224,756		1,224,756	1,091,070	133,686
Purchased Professional - Educational Services	1,000		1,000		1,000
Supplies and Materials	2,700		2,700	1,796	904
Total Child Study Team	1,228,456		1,228,456	1,092,866	135,590
Imp. of Instruct. Serv./Other Supp. Serv. - Instruct. Staff:					
Salaries of Supervisors of Instruction	141,965		141,965	115,809	26,156
Salaries of Other Professional Staff	126,700		126,700	98,460	28,240
Salaries of Secretarial and Clerical Assistants	174,831		174,831	142,360	32,471
Other Salaries	99,245		99,245	79,686	19,559
Other Purchased Services	42,150	(8,818)	33,332	7,829	25,503
Supplies and Materials	2,950	9,981	12,931	11,979	952
Other Objects	5,000	(706)	4,294	3,337	957
Total Imp. of Instruct. Serv./Other Supp. Serv. - Instruct. Staff	592,841	457	593,298	459,460	133,838
Educational Media Services/School Library:					
Salaries	132,156	2,726	134,882	134,882	
Supplies and Materials	11,750	(2,726)	9,024	8,719	305
Total Educational Media Services/School Library	143,906	-	143,906	143,601	305
Instructional Staff Training Services:					
Other Salaries	1,500		1,500	613	887
Other Purchased Professional and Technical Services	8,500		8,500	4,248	4,252
Other Purchased Services	8,050	50	8,100	6,080	2,020
Supplies and Materials	250		250		250
Total Instructional Staff Training Services	18,300	50.00	18,350	10,941	7,409
Support Services - General Administration:					
Salaries	78,631		78,631	66,744	11,887
Legal Services	70,000	11,807	81,807	71,413	10,394
Architectural/Engineering Services	30,000	(7,500)	22,500		22,500
Other Purchased Professional Services	50,000		50,000	42,300	7,700
Purchased Technical Services	16,200		16,200	3,840	12,360
Communications/Telephone	99,300	128	99,428	67,043	32,385
BOE Other Purchased Services	10,000		10,000	6,151	3,849
Other Purchased Services	31,000	1,733	32,733	29,056	3,677
General Supplies	1,000	1,800	2,800	1,958	842
Judgments Against School District	1,000		1,000		1,000
Miscellaneous Expenditures	5,900	(1,800)	4,100	1,342	2,758
BOE Membership Dues and Fees	7,500		7,500	6,399	1,101
Total Support Services - General Administration	400,531	6,168	406,699	296,246	110,453
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	390,204		390,204	339,776	50,428
Salaries of Other Professional Staff	340,656		340,656	295,854	44,802
Salaries of Secretarial and Clerical Assistants	370,363		370,363	284,078	86,285
Other Purchased Services	46,320	2,685	49,005	41,003	8,002
Supplies and Materials	33,805	(108)	33,697	23,452	10,245
Other Objects	8,750	28	8,778	6,815	1,963
Total Support Services - School Administration	1,190,098	2,605	1,192,703	990,978	201,725
Support Services - Central Services:					
Salaries	725,276		725,276	547,810	177,466
Purchased Technical Services	25,305		25,305	21,035	4,270
Miscellaneous Purchased Services	14,300	704	15,004	12,180	2,824
Supplies and Materials	12,200		12,200	9,297	2,903
Miscellaneous Expenditures	11,500	131	11,631	4,674	6,957
Total Support Services - Central Services	788,581	835	789,416	594,996	194,420
Support Services - Admin. Info. Tech. Services:					
Salaries	228,731		228,731	197,904	30,827
Purchased Professional Services	25,000	1,832	26,832	15,758	11,074
Other Purchased Services	1,000		1,000		1,000
Supplies and Materials	61,536	2,172	63,708	63,427	281
Other Objects	63,600	4,303	67,903	66,986	917
Total Support Services - Admin. Info. Tech. Services	379,867	8,307	388,174	344,075	44,099
Required Maintenance for School Facilities:					
Cleaning, Repair and Maintenance Services	81,042	2,000	83,042	83,042	
Required Maintenance for School Facilities	81,042	2,000	83,042	83,042	

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
EXPENDITURES (CONTINUED):					
Other Oper. & Maint. of Plant:					
Salaries	\$ 979,304	\$ (39,419)	\$ 939,885	\$ 817,935	\$ 121,950
Purchased Professional and Technical Services	46,600	16,580	63,180	58,420	4,760
Cleaning, Repair and Maintenance Services	239,000	66,318	305,318	258,949	46,369
Other Purchased Property Services	70,504		70,504	57,378	13,126
Insurance	138,633		138,633	138,633	
Miscellaneous Purchased Services	750	(30)	720	448	272
General Supplies	136,000	9,816	145,816	144,142	1,674
Energy (Natural Gas)	255,292		255,292	165,807	89,485
Energy (Electricity)	998,045		998,045	676,682	321,363
Other Objects	350		350		350
Total Other Oper. & Maint. of Plant:	2,864,478	53,265	2,917,743	2,318,394	599,349
Student Transportation Services:					
Cleaning, Repair and Maintenance Services	4,000	1,500	5,500	5,468	32
Contracted Services (Other Than Bct. Home & School) - Vendors	11,500	3,289	14,789	13,192	1,597
Miscellaneous Purchased Services - Transportation	20,085	(3,000)	17,085	17,085	
Total Student Transportation Services	35,585	1,789	37,374	35,745	1,629
Special Programs - Instruction - Employee Benefits:					
Social Security Benefits	197,500	(197,500)			
Health Benefits	297,000	(297,000)			
Total Special Programs - Instruction - Employee Benefits	494,500	(494,500)			
Unallocated Benefits - Employee Benefits:					
Social Security Contributions	645,000	197,500	842,500	757,987	84,513
TPAF Contribution - ERIP	47,532		47,532	47,352	180
Other Retirement Contributions - PERS	1,018,517	346	1,018,863	877,134	141,729
Unemployment Compensation	145,000		145,000	145,000	
Workmen's Compensation	779,420		779,420	779,409	11
Health Benefits	6,300,813	402,234	6,703,047	5,523,069	1,179,978
Tuition Reimbursement	51,500		51,500	22,902	28,598
Other Employee Benefits	155,704		155,704	128,068	27,636
Total Unallocated Benefits - Employee Benefits	9,143,486	600,080	9,743,566	8,280,921	1,462,645
On-behalf payments:					
On-Behalf TPAF Pension Contributions				1,596,250	(1,596,250)
Reimbursed TPAF Social Security				1,188,096	(1,188,096)
Total On-Behalf Contributions				2,784,346	(2,784,346)
Total Undistributed Expenditures	22,316,187	181,056	22,497,243	22,117,643	379,600
Total Expenditures - Current Expense	37,496,415	25,027	37,521,442	36,977,804	543,638
CAPITAL OUTLAY					
Increase in Capital Reserve	200,000	(200,000)			
Interest Deposit To Capital Reserve	1,000	(1,000)			
Total Increase in Capital Reserve	201,000	(201,000)			
Equipment:					
Multiple Disabilities	12,930	(3,918)	9,012	9,012	
Undist. Expend. - Admin. Info. Technology Services	4,000	(4,000)			
Undist. Expend. - Operation & Maint. of Plant Services	25,000	(5,000)	20,000	17,916	2,084
Special Schools All Programs - Student Transportation	20,000	14,778	34,778	31,131	3,647
Total Equipment	61,930	1,860	63,790	58,059	5,731
Facilities Acquisition and Construction Services:					
Construction Services	150,000	2,400	152,400	83,359	69,041
Total Facilities Acquisition and Construction Services	150,000	2,400	152,400	83,359	69,041
Total Expenditures - Capital Outlay	412,930	(196,740)	216,190	141,418	74,772
Total Expenditures	37,909,345	(171,713)	37,737,632	37,119,222	618,410
(Deficiency)/Excess of Revenues (Under)/Over Expenditures	(1,254,883)	108,225	(1,146,658)	1,347,918	2,494,576
Fund Balances, July 1	8,670,653		8,670,653	8,670,653	-
Fund Balances, June 30	\$ 7,415,770	\$ 108,225	\$ 7,523,995	\$ 10,018,571	\$ 2,494,576
Recapitulation of (Deficiency) excess of revenues (under) over expenditures and other financing (uses)					
Budgeted Fund Balance	\$ (1,254,883)	\$ 213,165	\$ (1,041,718)	\$ 1,452,858	\$ 2,494,576
Adjustment for prior year encumbrances		(104,940)	(104,940)	(104,940)	
Total	\$ (1,254,883)	\$ 108,225	\$ (1,146,658)	\$ 1,347,918	\$ 2,494,576
Recapitulation of Fund Balance:					
Restricted Fund Balance:					
Capital Reserve				\$ 1,151,066	
Assigned to:					
Designated for Subsequent Years Expenditures				3,723,123	
Encumbrances				13,739	
Unassigned Fund Balance				5,130,643	
Fund Balance per Governmental Funds (GAAP and budgetary basis)				\$ 10,018,571	

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
BUDGETARY BASIS

SPECIAL REVENUE FUND

Year ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
Revenues:					
State Sources	\$ 298,621	\$ 279,545	\$ 578,166	\$ 536,019	\$ (42,147)
Federal Sources	143,043	(28,870)	114,173	76,240	(37,933)
Other Sources	453,394	(154,681)	298,713	298,089	(624)
Total Revenues	895,058	95,994	991,052	910,348	(80,704)
Expenditures:					
Instruction:					
Salaries of Teachers	395,226	(348,111)	47,115	47,115	-
Other Salaries	76,467	107,862	184,329	151,618	32,711
Supplies & Materials	66,576	(43,549)	23,027	21,766	1,261
Total Instruction	538,269	(283,798)	254,471	220,499	33,972
Support Services:					
Salaries	356,789	70,345	427,134	397,966	29,168
Personal Services - Employee Benefits		139,856	139,856	130,067	9,789
Purchased Professional/Technical Services		97	97	97	
Miscellaneous Purchased Services		5,201	5,201	5,129	72
Supplies & Materials		7,678	7,678	7,678	
Purchased Property Services		15,024	15,024	13,693	1,331
Travel		3,047	3,047	1,798	1,249
Miscellaneous Expenditures		91,577	91,577	89,310	2,267
Total Support Services	356,789	332,825	689,614	645,738	43,876
Capital Outlay:					
Facilities Acquisition and Construction Services:					
Instructional Equipment		46,967	46,967	44,111	2,856
Total Facilities Acquisition and Construction Services	-	46,967	46,967	44,111	2,856
Total Expenditures	895,058	95,994	991,052	910,348	80,704
Excess/(Deficiency) of Revenues Over/(Under) Expenditures and Other Financing Uses	\$ -	\$ -	\$ -	\$ -	\$ -

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2012

Explanation of Differences between Budgetary Inflows and Outflows and GAAP
Revenues and Expenditures

	<u>Special Revenue Fund</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary) "revenues" from the Budgetary Comparison Schedules (C-2)	\$ 910,348
Difference - budget to GAAP:	
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.	
Current Year Encumbrances	(7,546)
Prior Year Encumbrances	<u>1,916</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (B-2)	<u>\$ 904,718</u>
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total outflows" from the Budgetary Comparison Schedule (C-2)	\$ 910,348
Difference - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	
Current Year Encumbrances	(7,546)
Prior Year Encumbrances	<u>1,916</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (B-2)	<u>\$ 904,718</u>

Supplementary Information

Special Revenue Fund

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

SPECIAL REVENUE FUND

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS

Year ended June 30, 2012

	Projects Adult County	Case Management - Special Child Health Services		Clinic Project Program Child
	<u>County</u>	<u>State</u>	<u>County</u>	<u>Child</u>
Revenues:				
State Sources		\$ 238,333		
Federal Sources				
Other Sources	\$ 100,000		\$ 104,345	\$ 19,328
Total Revenues	<u>\$ 100,000</u>	<u>\$ 238,333</u>	<u>\$ 104,345</u>	<u>\$ 19,328</u>
Expenditures:				
Instruction:				
Salaries of Teachers				
Other Salaries				
Supplies and Materials				
Total Instruction				
Support Services:				
Salaries	\$ 71,368	\$ 234,519	\$ 39,771	\$ 19,020
Personal Services - Employee Benefits	24,578		53,190	
Purchased Professional & Technical Services			97	
Supplies & Materials	3,799		391	308
Purchased Property Services				
Travel	255	1,251		
Miscellaneous Expenditures		1,250	10,000	
Miscellaneous Purchased Services		1,313	896	
Total Support Services	<u>100,000</u>	<u>238,333</u>	<u>104,345</u>	<u>19,328</u>
Facilities Acquisition				
Instructional Equipment				
Total Facilities Acquisition				
Total Expenditures	<u>\$ 100,000</u>	<u>\$ 238,333</u>	<u>\$ 104,345</u>	<u>\$ 19,328</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

SPECIAL REVENUE FUND

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS

Year ended June 30, 2012

	Youth Corp	WIA Out-of-School Youth	Carl D. Perkins	State Farm	Totals
Revenues:					
State Sources	\$ 297,686				\$ 536,019
Federal Sources		\$ 49,395	\$ 26,845		76,240
Other Sources				\$ 74,416	298,089
Total Revenues	<u>\$ 297,686</u>	<u>\$ 49,395</u>	<u>\$ 26,845</u>	<u>\$ 74,416</u>	<u>\$ 910,348</u>
Expenditures:					
Instruction:					
Salaries of Teachers	\$ 47,115				\$ 47,115
Other Salaries	107,692	\$ 43,926			151,618
Supplies and Materials			\$ 21,766		21,766
Total Instruction	<u>154,807</u>	<u>43,926</u>	<u>21,766</u>		<u>220,499</u>
Support Services:					
Salaries	30,288			\$ 3,000	397,966
Personal Services - Employee Benefits	47,211	5,088			130,067
Purchased Professional & Technical Services					97
Miscellaneous Purchased Services	2,920				5,129
Supplies & Materials	3,180				7,678
Purchased Property Services	13,693				13,693
Travel	87	205			1,798
Miscellaneous Expenditures	45,500	176		32,384	89,310
Total Support Services	<u>142,879</u>	<u>5,469</u>		<u>35,384</u>	<u>645,738</u>
Facilities Acquisition					
Instructional Equipment			5,079	39,032	44,111
Total Facilities Acquisition			<u>5,079</u>	<u>39,032</u>	<u>44,111</u>
Total Expenditures	<u>\$ 297,686</u>	<u>\$ 49,395</u>	<u>\$ 26,845</u>	<u>\$ 74,416</u>	<u>\$ 910,348</u>

Capital Projects Fund

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SUMMARY SCHEDULE OF PROJECT REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

(BUDGETARY BASIS)

Year ended June 30, 2012

	<u>Current Year</u>
Revenues:	
County Sources	\$ 420,500
Total Revenues	<u>420,500</u>
Expenditures:	
Construction Services	<u>252,101</u>
Total Expenditures	<u>252,101</u>
Excess of Revenues Over Expenditures	168,399
Fund Balance, July 1	491,726
Fund Balance, June 30	<u>\$ 660,125</u>
 <u>Reconciliation to Fund Financial statements</u>	
Fund Balance, June 30, 2012 - Budgetary - Basis	\$ 660,125
GAAP Basis Revenues Not Recognized	<u>(660,125)</u>
Fund Balance, June 30, 2012 - GAAP basis	<u>\$ -</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE,
AND PROJECT STATUS - BUDGETARY BASIS

(BUDGETARY BASIS)

Mercer High School and Joseph Cappello HVAC Controls
and Mercer High School Drivit Replacement

Year ended June 30, 2012

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources:				
County Sources	\$ 530,000	\$ 420,500	\$ 950,500	\$ 950,500
Total Revenues	<u>530,000</u>	<u>420,500</u>	<u>950,500</u>	<u>950,500</u>
Expenditures and Other Financing Sources:				
Construction Services	<u>38,274</u>	<u>252,101</u>	<u>290,375</u>	<u>-</u>
Total Expenditures	<u>38,274</u>	<u>252,101</u>	<u>290,375</u>	<u>-</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>\$ 491,726</u>	<u>\$ 168,399</u>	<u>\$ 660,125</u>	<u>\$ 950,500</u>

Additional Project Information:

Project Number	3103-055-02-0690
Grant Date/Letter of Notification	Various
Bond Authorization (Referendum) Date	N/A
Bonds Authorized	N/A
Bonds Issued	N/A
Original Authorized Cost	\$ 530,000
Additional Authorized Cost	420,500
Revised Authorized Cost	950,500

Percentage Increase over Original Authorized Cost	79%
Percentage Completion	30.55%
Original Target Completion Date	November 2011
Revised Target Completion Date	June 30, 2013

Fiduciary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
TRUST AND AGENCY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Trust			Agency		
	Donation Trust Fund	Unemployment Compensation	Total Trust	Student Activity	Payroll	Total Agency
<u>Assets</u>						
Cash and Cash Equivalents	\$ 39,698	\$ 85,533	\$ 125,231	\$ 20,546	\$ 220,482	\$ 241,028
Total Assets	<u>39,698</u>	<u>85,533</u>	<u>125,231</u>	<u>\$ 20,546</u>	<u>\$ 220,482</u>	<u>\$ 241,028</u>
<u>Liabilities:</u>						
Accounts Payable	195	22,530	22,725			
Payroll Deductions and Withholdings Due to Student Groups				\$ 20,546	\$ 220,482	\$ 220,482
Total Liabilities	<u>195</u>	<u>22,530</u>	<u>22,725</u>	<u>\$ 20,546</u>	<u>\$ 220,482</u>	<u>\$ 241,028</u>
<u>Net Assets:</u>						
Held in Trust for Unemployment		63,003	63,003			
Held in Trust for Scholarships	39,503		39,503			
Total Net Assets	<u>\$ 39,503</u>	<u>\$ 63,003</u>	<u>\$ 102,506</u>			

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
STUDENT ACTIVITY AGENCY FUND

SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year ended June 30, 2012

	Balance July 1, 2011	Cash Receipts	Cash Disbursements	Balance June 30, 2012
Capello	\$ 5,102	\$ 911	\$ 2,181	\$ 3,832
High School	12,198	29,338	30,406	11,130
Regional Day	4,748	3,168	2,332	5,584
Total	<u>\$ 22,048</u>	<u>\$ 33,417</u>	<u>\$ 34,919</u>	<u>\$ 20,546</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
PAYROLL AGENCY FUND

SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year ended June 30, 2012

	Balance July 1, 2011	Cash Receipts	Cash Disbursements	Balance June 30, 2012
Assets				
Cash and Cash Equivalents	\$ 201,674	\$ 31,050,169	\$ 31,031,361	\$ 220,482
Total Assets	<u>\$ 201,674</u>	<u>\$ 31,050,169</u>	<u>\$ 31,031,361</u>	<u>\$ 220,482</u>
Liabilities				
Payroll Deductions and Withholdings	\$ 201,674	\$ 31,050,169	\$ 31,031,361	\$ 220,482
Total Liabilities	<u>\$ 201,674</u>	<u>\$ 31,050,169</u>	<u>\$ 31,031,361</u>	<u>\$ 220,482</u>

Long-Term Debt

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
LONG-TERM DEBT

SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES

Year ended June 30, 2012

	Interest Rate	Amount of Original Issue	Balance July 1, 2011	Retired	Balance June 30, 2012
First Hope Bank - Bus	3.19%	\$ 69,342	\$ 34,696	\$ 17,347	\$ 17,349
			<u>\$ 34,696</u>	<u>\$ 17,347</u>	<u>\$ 17,349</u>

Statistical Section
(Unaudited)

**Statistical Section
Unaudited**

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the district's financial performance and well being have changed over time.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report relates to the services the district provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports (CAFR) for the relevant year.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 NET ASSETS BY COMPONENT
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Government Activities:										
Invested in Capital Assets, Net of Related Debt	\$ 2,928,439	\$ 12,149,078	\$ 6,879,807	\$ 11,194,576	\$ 12,052,157	\$ 38,326,912	\$ 41,004,526	\$ 40,373,584	\$ 39,417,476	\$ 38,822,787
Restricted	714,194	591,693	6,567,558	737,150	658,289	1,726,193	2,356,854	499,821	750,824	1,151,066
Unrestricted	107,239	1,766,911	940,437	645,526	2,632,365	1,608,031	2,843,187	3,894,508	5,812,175	6,649,120
Total Government Activities Net Assets	\$ 3,749,872	\$ 14,507,682	\$ 14,387,802	\$ 12,577,252	\$ 15,342,811	\$ 41,661,136	\$ 46,204,567	\$ 44,767,913	\$ 45,980,475	\$ 46,622,973
Business-Type Activities:										
Invested in Capital Assets			\$ 20,977	\$ 241,127	\$ 297,513	\$ 1,159,833	\$ 107,121	\$ 285,595	\$ 372,482	\$ 362,945
Restricted			9,447	1,574,710	1,175	10,852	206,854			
Unrestricted	\$ 1,347,369	\$ 2,034,461	1,884,120		2,469,575	2,262,860	1,997,726	2,311,234	2,167,994	2,083,546
Total Business-Type Activities Net Assets	\$ 1,347,369	\$ 2,034,461	\$ 1,914,544	\$ 1,815,837	\$ 2,768,263	\$ 3,433,545	\$ 2,311,701	\$ 2,596,829	\$ 2,540,476	\$ 2,446,491
Government-Wide:										
Invested in Capital Assets, Net of Related Debt	\$ 2,928,439	\$ 12,149,078	\$ 6,900,784	\$ 11,435,703	\$ 12,349,670	\$ 39,486,745	\$ 41,111,647	\$ 40,659,179	\$ 39,789,958	\$ 39,185,732
Restricted	714,194	591,693	6,577,005	2,311,860	659,464	1,737,045	2,563,708	499,821	750,824	1,151,066
Unrestricted	1,454,608	3,801,372	2,824,557	645,526	5,101,940	3,870,891	4,840,913	6,205,742	7,980,169	8,732,666
Total District Net Assets	\$ 5,097,241	\$ 16,542,143	\$ 16,302,346	\$ 14,393,089	\$ 18,111,074	\$ 45,094,681	\$ 48,516,268	\$ 47,364,742	\$ 48,520,951	\$ 49,069,464

Source: CAFR Schedule A-1 and District records.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental Activities:										
Instruction:										
Special Education	\$ 11,577,168	\$ 12,585,281	\$ 15,113,913	\$ 16,629,722	\$ 17,905,103	\$ 18,998,691	\$ 19,014,032	\$ 24,841,406	\$ 23,108,085	\$ 23,177,728
Other Special Education	1,048,439	947,071	878,575	774,505	908,497	923,038	142,124		50,107	44,458
Support Services:										
Student and Instruction Related Services	7,094,768	7,121,425	7,349,525	7,826,729	7,644,536	7,735,774	8,000,395	11,074,334	10,695,312	9,831,565
General Administration			449,233	594,214	421,672	339,293	401,045	497,896	449,249	335,027
School Administrative Services	1,074,546	1,269,621	1,051,697	1,249,443	944,566	1,168,139	1,281,183	1,631,985	1,417,875	1,462,521
Other Administrative Services	2,237,573	2,370,540								
Central Administrative Services			2,130,387	1,531,086	1,701,401	623,804	660,076	1,058,708	883,952	842,546
Administrative Information Technology			528,119	481,806	505,978	512,777	484,963	455,442	429,035	438,483
Plant Operations and Maintenance	1,933,620	2,766,528	2,044,608	2,079,370	2,272,453	2,473,666	2,439,231	2,999,265	2,943,122	2,829,359
Pupil Transportation	54,708	55,724	38,323	30,437	28,580	37,751	25,706	29,498	68,936	19,774
Unallocated Benefits	4,734,412	6,652,113	7,651,880	8,704,196	11,285,762	11,160,252	11,964,492			
Disposal of Fixed Assets		128,275								
Interest on Lease Purchase Agreements				591,414	513,890	678,001				
Unallocated Compensation Expense	54,963	55,598								
Unallocated Depreciation	1,035,378	621,103	119,923	292,657	311,551					
Total Governmental Activities Expenses	30,845,575	34,573,279	37,356,183	40,785,579	44,443,989	44,651,186	44,413,247	42,588,534	40,045,673	38,981,461
Business-Type Activities:										
Target Evaluation Team	29,197	104,509	145,687	14,879						
Project Adults	28,500	14,042	11,138	20,211	16,019	6,403	2,159	45,289		
Food Service	364,492	382,727	356,757	402,624	398,237	403,871	423,811	423,955	472,240	466,037
Mercer County Cooperative Transportation System	9,456,936	9,759,321	9,900,971	9,083,414	9,422,281	8,832,061	8,518,210	8,410,047	6,577,813	6,047,738
NJ State Regional Day School at Hamilton	4,797,950	4,278,695	5,450,928	2,439,272	1,450,516	2,018,921	2,242,112	2,237,440	2,257,360	2,207,361
Integrated Preschool	1,085,011	1,248,768	1,290,559	1,102,840	480,392	498,762	217,889	196,322	160,782	231,902
Integrated Preschool - Carryover					121,546					
Capital Academy			1					20,671		
Assisted Augmentative Technology	38,905	45,711	47,491	37,816	51,781	73,911	42,158	47,036	34,813	24,685
Respite								506		
Clinic Parent								22,296	37,904	26,566
Community Resources								372,160	274,074	80,279
Chuck's									82,129	72,387
Special Aides										1,743,632
Joint Council	22,460	13,380	19,568	7,585				1,912,584	1,737,379	
Social Skills				2,386	864			1,350		
Emergency Treatment Services				10,371	8,963			28,788		
Internal Service Fund		810,423								
Early Intervention Program		734,556								
Total Business-Type Activities Expenses	15,823,451	17,392,132	17,223,100	13,121,398	11,950,599	11,833,929	11,446,339	13,718,444	11,634,494	10,900,587
Total District Expenses	\$ 46,669,026	\$ 51,965,411	\$ 54,579,283	\$ 53,906,977	\$ 56,394,588	\$ 56,485,115	\$ 55,859,586	\$ 56,306,978	\$ 51,680,167	\$ 49,882,048

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program Revenues:										
Governmental Activities:										
Charges for Services:										
Special Education			\$ 1,806,922	\$ 2,246,549	\$ 2,551,476	\$ 2,586,453	\$ 2,626,585			
Operating Grants and Contributions:										
Special Education	\$ 2,261,181	\$ 2,082,384	1,599,100	963,593	1,137,245	995,847	852,079	\$ 692,465	\$ 502,352	\$ 220,813
Student and Instruction Related Services	1,479,501	1,069,584	998,170	1,318,224	929,542	1,078,503	978,777	1,050,167	893,492	683,905
Unallocated Benefits			1,726,189	1,915,489	3,277,205	3,256,617	2,722,819			
Capital Grants and Contributions									38,274	252,101
Total Governmental Activities Program Revenues	3,740,682	3,151,968	6,130,381	6,443,855	7,895,468	7,917,420	7,180,260	1,742,632	1,434,118	1,156,819
Business-Type Activities:										
Charges for Services:										
Target Evaluation Team	151,483	152,193	133,805							
Project Adults	73,755	20,415	5,570	22,952	6,433	12,278		42,974		
Home Instruction				360						
Food Service	119,398	118,698	104,492	118,594	122,158	110,448	103,951	88,637	97,432	85,117
Mercer County Cooperative Transportation System	9,444,580	9,790,690	9,931,668	9,114,109	9,459,372	8,805,282	8,518,210	8,410,047	6,578,015	6,047,738
NJ State Regional Day School at Hamilton	3,676,043	4,687,359	5,163,329	2,209,152	2,510,607	2,106,183	2,215,156	2,143,476	2,113,580	2,093,495
Integrated Preschool	1,262,234	1,316,399	1,522,737	912,390	480,411	333,062	360,026	206,289	328,626	266,112
Assisted Augmentative Technology	58,153	53,779	81,023	63,281	65,657	24,649	36,233	36,752	24,354	25,665
Respite								506		
Clinic Parent								49,360	29,350	32,570
Community Resources								358,427	243,104	99,021
Chuck's Place									83,197	73,605
Special Aides								1,912,584	1,737,379	1,737,884
Joint Council	32,200	32,200		29,582						
Social Skills				4,400	200					
Emergency Treatment Services				13,122	35,000					
Internal Service Fund		819,142								
Early Intervention Program		734,556								
Operating Grants and Contributions:										
Food Service	253,796	277,079	261,027	267,728	281,898	275,440	303,823	294,311	342,975	345,345
Total Business-Type Activities Program Revenues	15,071,642	18,002,510	17,203,651	12,755,670	12,961,736	11,667,342	11,537,399	13,543,363	11,578,012	10,806,552
Total District Program Revenues	\$ 18,812,324	\$ 21,154,478	\$ 23,334,032	\$ 19,199,525	\$ 20,857,204	\$ 19,584,762	\$ 18,717,659	\$ 15,285,995	\$ 13,012,130	\$ 11,963,371
Net (Expense)/Revenue:										
Governmental Activities	\$ (27,104,893)	\$ (31,421,311)	\$ (28,442,898)	\$ (34,341,724)	\$ (36,548,521)	\$ (36,733,766)	\$ (37,232,987)	\$ (40,845,902)	\$ (38,611,555)	\$ (37,824,642)
Business-Type Activities	(751,809)	610,378	(19,449)	(365,728)	1,011,137	(166,587)	91,060	(175,081)	(56,482)	(94,035)
Total District-wide Net (Expense)/Revenue	\$ (27,856,702)	\$ (30,810,933)	\$ (28,462,347)	\$ (34,707,452)	\$ (35,537,384)	\$ (36,900,353)	\$ (37,141,927)	\$ (41,020,983)	\$ (38,668,037)	\$ (37,918,677)

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets:										
Governmental Activities:										
County Appropriation	\$ 4,254,729	\$ 2,515,107	\$ 5,296,315	\$ 2,600,000	\$ 4,305,000	\$ 5,492,269	\$ 3,460,178	\$ 2,870,529	\$ 2,870,529	\$ 2,870,529
Tuition - LEAs	20,506,447	29,409,032	25,534,838	31,504,085	34,064,034	32,612,267	34,214,361	33,538,814	33,595,981	32,065,344
Nonresident Fees	129,921	77,679	134,895	259,570	567,943	573,370	183,847	175,880	170,013	183,485
Interest Earned on Investments	22,257	96,152	89,738	99,331	131,136	174,481	44,522	21,885	14,235	7,821
Miscellaneous Income	109,131	78,994	77,240	113,880	245,967	442,903	502,805	306,151	355,192	287,643
Federal and State Aid Not Restricted	2,977,445	10,002,157	27,402					2,955,850	2,818,167	3,052,318
Special Items:										
Capital Asset Inventory Adjustment				(2,191,671)						
Transfer Capital Lease Payment			15,685							
Loss on Retirement of Equipment			(127,005)							
Long-Term Debt Assumed by County of Mercer						25,000,000				
Cancellation of Net Assets							(34,481)			
Transfers				145,979			(41,207)			
Total Governmental Activities	27,999,930	42,179,121	31,049,108	32,531,174	39,314,080	64,295,290	38,330,025	39,869,109	39,824,117	38,467,140
Business-Type Activities:										
Interest Earned on Investments		2,271	3,099	3,151	3,002	2,567	292	348	127	51
Special Items:										
Capital Asset Inventory Adjustment				398,747						
Transfer Capital Lease Payment			(15,685)							
Cancellation of Prior Year Accounts Payable				41,800	125					
Refund of Prior Year Revenue			(31,068)	(30,697)	(61,838)		(10,314)			
Cancellation of Net Assets							(182,823)			
Transfers				(145,979)			41,207			
Total Business-Type Activities	-	2,271	(43,654)	267,022	(58,711)	2,567	(151,638)	348	127	51
Total District-wide	\$ 27,999,930	\$ 42,181,392	\$ 31,005,454	\$ 32,798,195	\$ 39,255,369	\$ 64,297,857	\$ 38,178,387	\$ 39,869,457	\$ 39,824,244	\$ 38,467,191
Changes in Net Assets:										
Governmental Activities	\$ 895,037	\$ 10,757,810	\$ 2,606,210	\$ (1,810,550)	\$ 2,765,559	\$ 27,561,524	\$ 1,097,038	\$ (976,793)	\$ 1,212,562	\$ 642,498
Business-Type Activities	(751,809)	612,649	(63,103)	(98,707)	952,426	(164,020)	(60,578)	(174,733)	(56,355)	(93,984)
Total District	\$ 143,228	\$ 11,370,459	\$ 2,543,107	\$ (1,909,257)	\$ 3,717,985	\$ 27,397,504	\$ 1,036,460	\$ (1,151,526)	\$ 1,156,207	\$ 548,514

Source: CAFR Schedules A-2 and District records

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund:										
Reserved	\$ 713,680	\$ 591,693	\$ 614,732	\$ 648,821	\$ 623,808	\$ 884,719	\$ 828,766	\$ 610,612		
Unreserved	448,352	3,074,454	1,500,420	1,073,585	3,032,465	4,111,789	6,282,263	6,008,461		
Restricted for									\$ 750,824	\$ 1,151,066
Assigned to									1,359,823	3,736,862
Unassigned									6,560,006	5,130,643
Total General Fund	\$ 1,162,032	\$ 3,666,147	\$ 2,115,152	\$ 1,722,406	\$ 3,656,273	\$ 4,996,508	\$ 7,111,029	\$ 6,619,073	\$ 8,670,653	\$ 10,018,571
All Other Governmental Funds:										
Restricted	\$ 514	\$ 24,368,464	\$ 5,952,826	\$ 83,329	\$ 34,481	\$ 34,481				
Unassigned, Reported In:										
Capital Projects Fund	439,284	(3,742,953)								
Total All Other Governmental Funds	\$ 439,798	\$ 20,625,511	\$ 5,952,826	\$ 83,329	\$ 34,481	\$ 34,481	\$ -	\$ -	\$ -	\$ -

Source: CAFR Schedule B-1 and District records.

The change in the restricted fund balance is the result of capital project fund expenditures incurred for projects in which the funding was received in prior years.

GASB # 54 was implemented in the 2011 fiscal year, which required the presentation of fund balances to be reported in different classifications from those presented in prior years (See footnote 1.M. in the basic financial statements). Prior years have not been restated above and are not required to be.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
County Appropriation	\$ 4,254,729	\$ 2,515,107	\$ 5,296,315	\$ 2,600,000	\$ 4,305,000	\$ 5,492,269	\$ 3,460,178	\$ 2,870,529	\$ 2,908,803	\$ 3,122,630
Tuition - LEA's	20,506,447	29,409,032	25,534,838	31,504,085	34,064,034	32,612,267	34,214,361	33,538,834	33,595,981	32,065,344
Nonresident Fees	129,921	77,679	134,895	259,570	567,943	573,370	183,848	175,860	170,013	183,485
Interest Earned on Investment	22,257	96,152	89,738	99,331	131,136	174,481	44,522	21,885	14,235	7,821
Miscellaneous	436,365	421,055	55,395	259,859	245,967	442,903	502,805	306,151	355,192	287,643
Other Local Sources			1,404,146	882,523	896,781					
State Sources	4,701,489	12,151,736	2,371,531	2,625,614	3,981,473	4,024,581	3,464,359	3,574,464	3,269,005	3,322,120
Federal Sources	1,689,404	660,328	597,030	689,168	465,737		265,853	487,560	434,942	343,865
Other Sources						904,351	823,463	636,458	510,064	291,051
Total Revenues	31,740,612	45,331,089	35,483,888	38,920,150	44,658,071	44,626,257	42,959,389	41,611,741	41,258,235	39,623,959
Expenditures:										
Current:										
Special Education Instruction	11,577,168	12,585,281	12,886,417	13,450,315	14,389,976	15,129,911	16,312,545	16,044,545	14,975,700	15,049,479
Other Special Instruction	1,048,439	947,071	878,575	774,505	908,497	914,056	66,691		36,001	31,495
Support Services and Undistributed Costs:										
Student and Instruction Related Services	7,094,768	7,121,425	7,349,525	7,826,729	7,644,536	7,646,203	7,944,634	7,886,748	7,592,858	7,028,694
General Administration			386,234	468,946	297,075	305,866	376,457	343,876	317,327	296,246
School Administration	1,074,546	1,269,621	1,248,051	1,169,940	958,174	1,090,139	1,221,402	1,162,056	1,006,393	990,978
Central Services			2,130,387	1,531,086	1,701,402	618,247	648,128	734,441	613,412	594,996
Administrative Information Technology			528,119	481,806	505,978	475,089	447,088	358,615	332,388	344,075
Other Administrative Services	2,237,573	2,370,540								
Plant Operations and Maintenance	1,933,620	2,097,426	2,013,109	2,016,736	2,210,155	2,309,094	2,318,292	2,478,416	2,460,992	2,401,436
Pupil Transportation	54,708	55,724	38,323	30,437	28,580	37,751	25,706	28,391	32,795	35,745
Unallocated Benefits	4,734,412	6,652,113	7,651,880	8,704,196	11,113,299	11,160,252	11,081,761	12,569,952	11,599,852	11,065,267
Debt Service:										
Interest on Lease Purchase Agreements				591,414	513,890	1,090,434				
Lease Purchase Agreements - Principal				1,976,787	1,965,000	2,320,000				
Capital Outlay	2,788,017	3,852,060	21,591,199	6,154,496	541,491	188,980	360,957	496,657	273,632	437,630
Total Expenditures	32,543,251	36,951,261	56,701,819	45,177,393	42,778,053	43,286,022	40,803,661	42,103,697	39,241,350	38,276,041
Excess/(Deficiency) of Revenues										
Over/(Under) Expenditures	(802,639)	8,379,828	(21,217,931)	(6,257,243)	1,880,018	1,340,235	2,155,728	(491,956)	2,016,885	1,347,918
Other Financing Sources/(Uses):										
Transfers Out							(41,207)			
Cancelled Excess Fund Balance							(34,481)			
Capital Lease Proceeds		14,310,000	5,000,000						34,696	
Total Other Financing Sources/(Uses)	-	14,310,000	5,000,000	-	-	-	(75,688)	-	34,696	-
Net Change in Fund Balances	\$ (802,639)	\$ 22,689,828	\$ (16,217,931)	\$ (6,257,243)	\$ 1,880,018	\$ 1,340,235	\$ 2,080,040	\$ (491,956)	\$ 2,051,581	\$ 1,347,918

Source: District CAFR Records and Schedule B-2

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 GENERAL FUND - OTHER LOCAL REVENUE BY SOURCE
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tuition - LEA's	\$ 20,506,447	\$ 29,409,032	\$ 25,534,838	\$ 31,504,085	\$ 34,064,034	\$ 32,842,337	\$ 34,214,361	\$ 33,538,835	\$ 33,595,981	\$ 32,065,344
Nonresident Fees	129,921	77,679	134,895	259,570	567,943	573,371	183,848	175,860	170,013	183,485
Interest Earned on Investments	22,257	63,694	89,738	99,331	131,137	174,481	44,522	21,885	14,235	7,821
County and Local Grants	327,234	342,061	1,382,301	31,799	1,826,110	5,492,269	3,460,178	2,870,529	2,870,529	2,870,529
Rental				30,998	64,496	258,100			267,317	257,011
Transfer From Enterprise Funds				145,979						
In-Service Fees				10,240	4,972	8,950				
Workers Compensation Reimbursement			48,990		120,923					
Miscellaneous	109,131	78,994	6,406	72,642	55,575	175,853		306,151	87,875	30,632

Source: District records.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 UNAUDITED

Year	Population ^a	Personal Income ^b	Per Capita Personal Income ^c	Unemployment Rate ^d
2003	358,669	\$ 15,458,633,900	\$ 43,100	Not Available
2004	361,225	16,070,539,025	44,489	Not Available
2005	361,882	16,621,602,142	45,931	3.80%
2006	362,813	18,311,534,923	50,471	4.20%
2007	363,402	19,316,996,712	53,156	3.80%
2008	364,571	19,672,615,731	53,961	4.90%
2009	366,222	19,024,134,234	51,947	7.80%
2010	366,511	19,240,361,456	52,496	7.80%
2011	Not Available	Not Available	Not Available	Not Available
2012	Not Available	Not Available	Not Available	Not Available

Source:

- ^a US Bureau of the Census, Population Division, provided by the NJ Dept of Labor and Workforce Development
- ^b Personal income has been estimated based upon the County population and per capita personal income presented.
- ^c Per capita personal income by municipality estimated based upon the 2010 Census published by the US Bureau of Economic Analysis.
- ^d New Jersey Department of Labor and Workforce Development, labor Planning and Analysis

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS
 UNAUDITED

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Instruction:										
Special Education	114.8	110.1	101.0	101.0	92.0	89.0	90.2	75.2	90.1	91.1
Other Instruction	22.5	23.6	21.4	20.4	23.0	26.2	18.8	24.6	19.7	20.6
Support Services:										
Student and Instruction Related Services	300.6	331.1	283.7	276.9	286.1	283.6	234.6	240.0	250.0	250.4
General Administration	3.0	3.0	3.0	5.0	4.0	2.0	3.0	3.0	4.0	4.0
School Administrative Services	15.0	13.0	12.0	14.0	12.0	15.0	12.0	16.0	15.9	20.5
Other Administrative Services	26.0	26.0	26.0	19.0	22.5	4.0	8.9	6.0	5.0	5.0
Central Services	25.0	35.6	35.6	23.0	20.0	12.0	48.0	32.0	35.6	31.5
Total	506.9	542.4	482.7	459.3	459.6	431.8	415.5	396.8	420.3	423.1

Source: District Personnel Records

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
OPERATING STATISTICS
LAST TEN FISCAL YEARS
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio	Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^d	Percentage Change in Average Daily Enrollment	Student Attendance Percentage
2003	938.60	\$ 29,755,234	\$ 31,702	6.20%	115	8.16	938.60	843.00	0.85%	89.81%
2004	927.10	33,099,201	35,702	12.62%	110	8.43	927.10	839.50	-1.23%	90.55%
2005	826.90	35,110,620	42,461	18.93%	101	8.19	826.90	751.00	-10.81%	90.82%
2006	776.80	36,454,695	46,929	10.52%	101	7.69	776.80	705.50	-6.06%	90.82%
2007	797.70	39,758,671	49,842	6.21%	92	8.67	797.70	723.60	2.69%	90.71%
2008	766.50	38,846,385	50,680	1.68%	89	8.61	766.50	705.60	-3.91%	92.05%
2009	783.90	38,746,815	49,428	-2.47%	90	8.71	783.90	714.80	2.27%	91.19%
2010	747.60	39,878,829	53,342	7.92%	75	9.97	747.60	682.30	-4.63%	91.27%
2011	699.70	38,967,718	55,692	4.40%	90	7.77	699.70	652.00	-6.41%	93.18%
2012	688.70	37,838,411	54,942	-1.35%	91	7.56	688.70	635.10	-1.57%	92.22%

Source: District records

Note: Enrollment based on annual October District count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 SCHOOL BUILDING INFORMATION
 LAST TEN FISCAL YEARS
 UNAUDITED

District/Building	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Elementary:										
Joseph F. Cappello (1993)										
Square Feet	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745
Capacity (Students)	375	350	257	262	262	262	262	262	262	262
Enrollment	358	329	240	241	234	170	193	161	141	141
Mercer Elementary (2005)										
Square Feet				88,421	88,421	88,421	88,421	88,421	88,421	88,421
Capacity (Students)				246	246	265	265	265	265	265
Enrollment				232	251	246	261	262	242	208
Alfred Reed (1970)										
Square Feet	39,750	39,750	39,750							
Capacity (Students)	162	160	162							
Enrollment	151	155	141							
White Horse (19xx)										
Square Feet	39,888	39,888	39,888							
Capacity (Students)	96	96	90							
Enrollment	85	91	86							
High School:										
Mercer JR/SR (1987)										
Square Feet	75,000	75,000	75,000	86,858	86,858	86,858	86,858	96,858	96,858	96,858
Capacity (Students)	319	316	322	318	318	318	318	318	318	318
Enrollment	305	282	287	293	286	292	273	273	271	279
Other:										
Regional Day School (1984)										
Square Feet	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411
Capacity (Students)	128	128	117	60	60	60	60	60	60	60
Enrollment	102	104	91	57	60	47	50	48	47	42

Number of Schools at June 30, 2012

Elementary = 2

Senior High School = 1

Other = 1

Source: District records, ASSA

Note: Increases in square footage and capacity are the result of additions.

Enrollment is based on the annual October district count.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 SCHEDULE OF REQUIRED MAINTENANCE
 LAST TEN FISCAL YEARS
 UNAUDITED

	*School Facilities Project # (s)	JR/SR High School	Joseph C. Cappelo	Mercer Elementary	Alfred Reed	White Horse	Total
2003	N/A	\$ 76,725	\$ 75,637		\$ 39,870	\$ 16,289	\$ 208,521
2004	N/A	86,673	87,009		52,101		225,783
2005	N/A	82,164	70,506		25,974	18,087	196,731
2006	N/A	31,685	29,987	\$ 6,707	13,228		81,607
2007	N/A	36,268	22,457	20,345	2,257		81,327
2008	N/A	23,970	18,657	13,846	11,367		67,840
2009	N/A	19,069	16,530	28,840	6,866		71,305
2010	N/A	28,770	24,667	31,867	8,182		93,486
2011	N/A	25,471	22,472	25,368	9,822		83,133
2012	N/A	26,841	21,091	25,288	9,822		83,042
Total School Facilities		\$ 437,636	\$ 389,013	\$ 152,261	\$ 179,489	\$ 34,376	\$ 1,109,733

Source: District records.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 INSURANCE SCHEDULE
 JUNE 30, 2012
 UNAUDITED

	Coverage	Deductible
Burlington County Insurance Pool Joint Insurance Fund:		
Property, Inland Marine and Automobile Physical Damages	\$ 150,000,000	\$ 500
Boiler and Machinery	125,000,000	1,000
Crime	500,000	500
General and Automobile Liability	10,000,000	
Workers' Compensation	Statutory	
Educator's Legal Liability	10,000,000	
Pollution Legal Liability	3,000,000	25,000

Source: District records

Single Audit Section

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed In Accordance
with *Government Auditing Standards*

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mercer County Special Services School District, in the County of Mercer, New Jersey (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

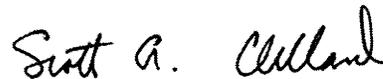
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

This report is intended solely for the information and use of the District's management and Board, others within the entity, the New Jersey Department of Education, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Scott A. Clelland
Licensed Public School Accountant
No. 1049



WISS & COMPANY, LLP

November 20, 2012
Iselin, New Jersey

Independent Auditors' Report on Compliance With Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with OMB
Circular A-133 and New Jersey OMB Circular 04-04

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

Compliance

We have audited the Mercer County Special Services School District, in the County of Mercer, New Jersey (the "District") compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *New Jersey OMB Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2012. The District's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments*. Those standards and requirements, OMB Circular A-133 and New Jersey OMB's Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management and Board, others within the entity, the New Jersey Department of Education, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott A. Clelland

Scott A. Clelland
Licensed Public School Accountant
No. 1049

Wiss & Company

WISS & COMPANY, LLP

November 20, 2012
Iselin, New Jersey

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program or Award Amount	Grant Period		Balance, June 30, 2011			Cash Received	Budgetary Expenditures	Repayment of Prior Year's Balances	Balance, June 30, 2012		
			From	To	Deferred Revenues	(Accounts Receivable)	Due to Grantor				(Accounts Receivable)	Deferred Revenue	Due To Grantor
U.S. Department of Health and Human Services - Passed - Through State Department of Education:													
General Fund:													
Medicaid Assistance Program - SEMI Program	93.778	\$ 267,625	07/01/11	06/30/12				\$ 214,146	\$ (267,625)		\$ (53,479)		
Total General Fund							214,146	(267,625)		(53,479)			
U.S. Department of Education - Passed - Through State Department of Education:													
Special Revenue Fund:													
Title I	84.010A	89,483	09/01/10	08/31/11		\$ (13,054)		13,054					
Carl D. Perkins Vocational and Applied Technology Act	84.048	20,927	09/01/10	08/31/11			\$ 976			\$ (976)			
Carl D. Perkins Vocational and Applied Technology Act	84.048	30,962	09/01/11	08/31/12				26,845	(26,845)				
U.S. Department of Health - Passed - Through Department of Health and Senior Services:													
Workforce Investment Area - Out-of-School Youth	17.258	44,100	10/01/08	09/30/09		(210)		210					
Workforce Investment Area - Out-of-School Youth	17.258	50,400	10/01/10	09/30/11		(9,302)		29,471	(20,169)				
Workforce Investment Area - Out-of-School Youth	17.258	44,100	10/01/11	09/30/12		(11,134)		23,069	(29,226)		(17,291)		
Total Special Revenue Fund						-	976	79,595	(76,240)	(976)	(17,291)		
Enterprise Fund													
U.S. Department of Agriculture:													
Passed-Through State Department of Education:													
School Breakfast Program	10.553	102,523	07/01/10	06/30/11		(19,491)		19,491					
School Breakfast Program	10.553	106,145	07/01/11	06/30/12				100,129	(106,145)		(6,016)		
National School Lunch Program	10.555	206,778	07/01/10	06/30/11		(38,814)		38,814					
National School Lunch Program	10.555	210,266	07/01/11	06/30/12				198,572	(210,266)		(11,694)		
Food Donation Program (NC)	10.555	23,139	07/01/12	06/30/12		\$ 1,290		23,139	(23,631)		\$ 798		
Total Enterprise Fund						1,290	(58,305)	380,145	(340,042)	(17,710)	798		
Total Federal Awards						\$ 1,290	\$ (92,005)	\$ 976	\$ 673,886	\$ (683,907)	\$ (976)	(88,480)	\$ 798

NC - noncash expenditures

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year ended June 30, 2012

State Grantor/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period		Balance, June 30, 2011			Cash Received	Budgetary Expenditures	Repayments of Prior Years' Balance	Balance, June 30, 2012			Memo	
			From	To	Deferred Revenues/	(Accounts Receivable)	Due to Grantor				(Accounts Receivable)	Deferred Revenue	Due To Grantor	Budgetary Receivable	Cumulative Total Expenditures
State Department of Education															
General Fund:															
Reimbursed TPAF Social Security Contributions	11-100-034-5095-002	\$ 1,239,358	07/01/10	06/30/11	\$ (61,733)		\$ 61,733								
Reimbursed TPAF Social Security Contributions	12-100-034-5095-002	1,188,096	07/01/11	06/30/12			1,183,182	\$ (1,188,096)		\$ (4,914)				\$ (1,188,096)	
Reimbursed TPAF Social Security Contributions Wage Freeze	11-100-034-5095-002	742	07/01/10	06/30/11	(371)		371								(347)
Other State Aid	Not Available	347	07/01/11	06/30/12			347	(347)							(347)
Total General Fund					<u>(62,104)</u>		<u>1,245,633</u>	<u>(1,188,443)</u>		<u>(4,914)</u>				<u>(1,188,443)</u>	
Special Revenue Fund:															
State Department of Health															
Special Revenue Fund:															
Case Management - SCHS	4572-129-6140-2080	253,749	07/01/10	06/30/11	(69,294)		69,294								
Case Management - SCHS	4572-129-6140-2080	250,797	07/01/11	06/30/12			250,797	(238,333)				\$ 12,464		(238,333)	
State Department of Human Services															
Special Revenue Fund:															
Youth Corp - E Corp 2010	100-062-314-6140	316,680	07/01/09	06/30/11	(16,397)		16,397								
Youth Corp Program FY10	100-062-314-6140	470,076	07/01/09	06/30/10		\$ 93	71,844		\$ (93)						
Youth Corp Program FY11	100-062-314-6140	430,787	07/01/10	06/30/11	(71,844)		71,844								
Youth Corp Program FY12	100-062-314-6140	327,369	07/01/11	06/30/12			308,453	(297,686)				10,767		(297,686)	
Total Special Revenue Fund					<u>(157,535)</u>	<u>93</u>	<u>716,785</u>	<u>(536,019)</u>		<u>(93)</u>		<u>23,231</u>		<u>(536,019)</u>	
State Department of Agriculture															
Enterprise Fund:															
State School Lunch Program	11-100-010-3350-023	4,966	07/01/10	06/30/11	(986)		986								
State School Lunch Program	12-100-010-3350-023	5,303	07/01/11	06/30/12			5,023	(5,303)				(280)		(5,303)	
Total Enterprise Fund					<u>(986)</u>		<u>6,009</u>	<u>(5,303)</u>				<u>(280)</u>		<u>(5,303)</u>	
Total State Financial Assistance					<u>\$ -</u>	<u>\$ (220,625)</u>	<u>\$ 93</u>	<u>\$ 1,968,427</u>	<u>\$ (1,729,765)</u>	<u>\$ (93)</u>	<u>\$ (5,194)</u>	<u>\$ -</u>	<u>\$ 23,231</u>	<u>\$ -</u>	<u>\$ (1,729,765)</u>

The accompanying notes to schedules of expenditures of federal awards and state financial assistance are an integral part of this schedule.

Mercer County Special Services School District

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012

1. General

The accompanying schedules of expenditures of federal awards and state financial assistance present the activity of all expenditures of federal awards and state financial assistance programs of the District. The District is defined in Note 1 to the basic financial statements. All federal awards and state financial assistance received from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies, are included on the schedules of expenditures of federal awards and state financial assistance.

2. Basis of Accounting

The accompanying schedules of expenditures of federal awards and state financial assistance are presented using the budgetary basis of accounting with the exception of programs recorded in the Food Service Enterprise Fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the District's basic financial statements. The information in these schedules are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Basic Financial Statements

Amounts reported in the accompanying schedules agree with amounts reported in the District's basic financial statements. The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements and schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

Mercer County Special Services School District

Notes to Schedules of Expenditures of
Federal Awards and State Financial Assistance

Year ended June 30, 2012

3. Relationship to Basic Financial Statements (continued)

The general fund is presented in the accompanying schedules on the modified accrual basis of accounting. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis, which recognizes encumbrances a expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The net adjustment to reconcile from the budgetary basis to the GAAP basis is (\$5,630) for the special revenue fund. See note to required supplementary information for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the special revenue fund. Federal and State award revenues are reported in the District's basic financial statements on a GAAP basis as follows:

	Federal	State	Total
General Fund	\$ 267,625	\$2,784,693	\$ 3,052,318
Special Revenue Fund	76,240	537,427	613,667
Food Service Enterprise Fund	340,042	5,303	345,345
Total award revenues	<u>\$683,907</u>	<u>\$ 3,327,423</u>	<u>\$ 4,011,330</u>

4. Relationship to Federal and State Financial Reports

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

Mercer County Special Services School District

Notes to Schedules of Expenditures of
Federal Awards and State Financial Assistance

June 30, 2012

5. Other

Revenues and expenditures reported under the Food Donation Program represent current year value received and current year distributions respectively.

TPAF Social Security contributions represent the amount reimbursed by the State for the employer's share of Social Security contributions for TPAF members for the year ended June 30, 2012.

The State of New Jersey also makes TPAF post retirement medical and pension contribution expenditures on behalf of the District, which amounted to \$1,596,250 for the year ended June 30, 2012. These expenditures are not subject to New Jersey OMB Circular 04-04 because the contributions are made by the State directly and do not have any compliance related requirements, and therefore have not been included on the Schedule of State Awards, as directed by the funding agency.

Mercer County Special Services School District
Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part I - Summary of Auditor's Results (continued)

Financial Statement Section

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards Section

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.048	Carl Perkins Vocational
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Food Donation Program

Mercer County Special Services School District
Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part I - Summary of Auditor's Results (continued)

State Awards Section

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 Yes X No

Type of auditor's report issued on compliance for major programs:

Unqualified

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiency(ies) identified?

 Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular 04-04?

 Yes X No

Identification of major programs:

GMIS/Program Number	Name of State Program or Cluster
495-034-5095-002	Reimbursed TPAF Social Security

Mercer County Special Services School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II - Financial Statement Findings

No financial statement findings were noted that were required to be reported under *Government Auditing Standards*.

Mercer County Special Services School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part III- Federal and State Awards Findings and Questioned Costs

No federal award or state financial assistance program compliance findings or questioned costs were noted that are required to be reported in accordance with OMB Circular A-133 or New Jersey OMB 04-04.

Mercer County Special Services School District

Summary Schedule of Prior Years Findings

Year ended June 30, 2012

None